

**Houston Zoo, Inc.**

Financial Statements and  
Independent Auditors' Report  
for the years ended June 30, 2009 and 2008

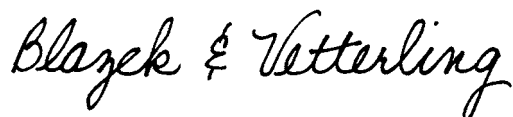
## Independent Auditors' Report

To the Board of Directors of  
Houston Zoo, Inc.:

We have audited the accompanying statements of financial position of Houston Zoo, Inc. as of June 30, 2009 and 2008 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of Houston Zoo, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Zoo, Inc. as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



September 24, 2009

## Houston Zoo, Inc.

### Statements of Financial Position as of June 30, 2009 and 2008

---

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 10,917,158	\$ 9,035,706
Concessionaire and other receivables	929,025	574,070
Prepaid expenses	158,882	141,534
Pledges receivable, net <i>(Note 4)</i>	17,470,472	12,978,862
Money market mutual funds restricted for capital acquisitions	13,907,611	8,882,886
Property and equipment, net <i>(Note 5)</i>	30,032,728	29,207,460
Investments <i>(Note 6)</i>	3,305,101	3,621,753
Animal and horticultural collections <i>(Note 1)</i>	<u>                    </u>	<u>                    </u>
TOTAL ASSETS	<u>\$ 76,720,977</u>	<u>\$ 64,442,271</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 972,877	\$ 1,084,019
Construction payables	657,426	1,332,752
Accrued salaries and benefit costs	775,666	707,243
Deferred revenue	<u>526,953</u>	<u>392,154</u>
Total liabilities	<u>2,932,922</u>	<u>3,516,168</u>
Net assets:		
Unrestricted <i>(Note 9)</i>	30,983,051	22,008,504
Temporarily restricted <i>(Note 10)</i>	39,328,510	35,616,603
Permanently restricted <i>(Note 11)</i>	<u>3,476,494</u>	<u>3,300,996</u>
Total net assets	<u>73,788,055</u>	<u>60,926,103</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 76,720,977</u>	<u>\$ 64,442,271</u>

*See accompanying notes to financial statements.*

---

## Houston Zoo, Inc.

### Statement of Activities for the year ended June 30, 2009

---

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>				
Contributions	\$ 1,968,129	\$ 12,082,983	\$ 178,000	\$ 14,229,112
Membership contributions	2,766,835			2,766,835
City management fee (Note 2)	8,151,396			8,151,396
Admission fees	7,833,535			7,833,535
Concession contract income	2,243,145			2,243,145
Guest program fees	947,893			947,893
Educational program fees	684,048			684,048
Investment return (Note 6)	(178,671)	(19,489)	(2,502)	(200,662)
Other income	<u>285,803</u>			<u>285,803</u>
Total revenue	24,702,113	12,063,494	175,498	36,941,105
Net assets released from restrictions:				
Capital improvements	7,463,150	(7,463,150)		
Program expenses	<u>888,437</u>	<u>(888,437)</u>		
Total	<u>33,053,700</u>	<u>3,711,907</u>	<u>175,498</u>	<u>36,941,105</u>
<b>EXPENSES:</b>				
Zoo programs:				
Exhibition facility operations	12,391,622			12,391,622
Education and conservation programs	2,421,473			2,421,473
Depreciation expense	1,851,700			1,851,700
Admissions and guest relations	1,631,127			1,631,127
Guest program events	<u>819,526</u>			<u>819,526</u>
Total zoo program expenses	19,115,448			19,115,448
Advertising and marketing costs	1,389,237			1,389,237
Management and general	1,518,743			1,518,743
Membership development	928,049			928,049
Fundraising	<u>1,127,676</u>			<u>1,127,676</u>
Total expenses	<u>24,079,153</u>			<u>24,079,153</u>
CHANGES IN NET ASSETS	8,974,547	3,711,907	175,498	12,861,952
Net assets, beginning of year	<u>22,008,504</u>	<u>35,616,603</u>	<u>3,300,996</u>	<u>60,926,103</u>
Net assets, end of year	<u>\$ 30,983,051</u>	<u>\$ 39,328,510</u>	<u>\$ 3,476,494</u>	<u>\$ 73,788,055</u>

*See accompanying notes to financial statements.*

---

## Houston Zoo, Inc.

### Statement of Activities for the year ended June 30, 2008

---

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 2,206,424	\$ 3,067,530	\$ 404,000	\$ 5,677,954
Membership contributions	2,777,220			2,777,220
City management fee (Note 2)	7,901,700			7,901,700
Admission fees	7,594,589			7,594,589
Concession contract income	1,965,174			1,965,174
Guest program fees	1,041,339			1,041,339
Educational program fees	530,317			530,317
Investment return (Note 6)	148,767	357,916	(1,007)	505,676
Other income	<u>153,960</u>			<u>153,960</u>
Total revenue	24,319,490	3,425,446	402,993	28,147,929
Net assets released from restrictions:				
Capital improvements	1,304,175	(1,304,175)		
Program expenses	<u>419,724</u>	<u>(419,724)</u>		
Total	<u>26,043,389</u>	<u>1,701,547</u>	<u>402,993</u>	<u>28,147,929</u>
EXPENSES:				
Zoo programs:				
Exhibition facility operations	11,649,876			11,649,876
Education and conservation programs	1,948,305			1,948,305
Depreciation expense	1,304,616			1,304,616
Admissions and guest relations	1,463,359			1,463,359
Guest program events	<u>808,510</u>			<u>808,510</u>
Total zoo program expenses	17,174,666			17,174,666
Advertising and marketing costs	1,395,025			1,395,025
Management and general	1,566,717			1,566,717
Membership development	917,630			917,630
Fundraising	<u>1,253,254</u>			<u>1,253,254</u>
Total expenses	<u>22,307,292</u>			<u>22,307,292</u>
CHANGES IN NET ASSETS	3,736,097	1,701,547	402,993	5,840,637
Net assets, beginning of year	<u>18,272,407</u>	<u>33,915,056</u>	<u>2,898,003</u>	<u>55,085,466</u>
Net assets, end of year	<u>\$ 22,008,504</u>	<u>\$ 35,616,603</u>	<u>\$ 3,300,996</u>	<u>\$ 60,926,103</u>

*See accompanying notes to financial statements.*

---

## Houston Zoo, Inc.

### Statements of Cash Flows for the years ended June 30, 2009 and 2008

---

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 12,861,952	\$ 5,840,637
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,851,700	1,304,616
Unrealized and realized loss on investments	541,119	356,454
Loss on disposition of property and equipment		31,985
Contributions restricted for capital acquisitions	(12,031,332)	(2,307,963)
Contributions to permanent endowment funds	(178,000)	(404,000)
Changes in operating assets and liabilities:		
Concessionaire and other receivables	(354,955)	(244,143)
Prepaid expenses	(17,348)	13,656
Pledges receivable (excluding capital and endowment)	294,888	(308,799)
Accounts payable	(111,142)	(475,184)
Accrued salaries and benefit costs	68,423	(15,473)
Deferred revenue	<u>134,799</u>	<u>38,838</u>
Net cash provided by operating activities	<u>3,060,104</u>	<u>3,830,624</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(3,352,294)	(9,697,967)
Change in cash restricted for capital acquisition	(5,024,725)	729,099
Purchases of investments	(1,065,546)	(1,313,505)
Proceeds from sale of investments	745,545	1,231,485
Net (purchases) sales of money market funds held as investments	<u>95,534</u>	<u>(470,907)</u>
Net cash used by investing activities	<u>(8,601,486)</u>	<u>(9,521,795)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for capital acquisitions	7,269,834	6,072,402
Proceeds from contributions received for permanent endowment funds	<u>153,000</u>	<u>404,000</u>
Net cash provided by financing activities	<u>7,422,834</u>	<u>6,476,402</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,881,452</b>	<b>785,231</b>
Cash and cash equivalents, beginning of year	<u>9,035,706</u>	<u>8,250,475</u>
Cash and cash equivalents, end of year	<u>\$ 10,917,158</u>	<u>\$ 9,035,706</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$353,213	\$2,220,374

*See accompanying notes to financial statements.*

---

## Houston Zoo, Inc.

Notes to Financial Statements for the years ended June 30, 2009 and 2008

---

### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Approximately 80 years ago, the City of Houston created a zoo program and facility to benefit the citizens of Houston and surrounding areas. The Zoological Society of Houston was organized in 1967 as a Texas nonprofit corporation to support the activities of the zoo operated by the City of Houston. In 2002, the zoo was privatized by order of the City of Houston and merged into the Zoological Society of Houston, which changed its name to Houston Zoo, Inc. (the Houston Zoo).

The Houston Zoo is a conservation, education, and recreation organization dedicated to the reproduction, protection, and exhibition of animals in their habitats. The Houston Zoo provides a fun, unique and inspirational experience fostering appreciation, knowledge and care for the natural world.

Federal income tax status – The Houston Zoo is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash equivalents are highly liquid investments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows.

Property and equipment are recorded at cost, if purchased, or at fair value at the date of gift, if donated. The Houston Zoo capitalizes property and equipment that have a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. The Houston Zoo recognizes depreciation using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 25 years.

Investments in marketable securities are recorded at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets.

Animal and horticultural collections – In accordance with industry practice, the Houston Zoo does not capitalize animal and horticultural collections; acquisitions are reported as expenditures in the period of acquisition. The Houston Zoo is responsible for the health and welfare of its animal and horticultural collections. The Houston Zoo maintains records of its collections and any exchanges with other organizations. Under the direction of the Board of Directors, the President, and the curatorial staff, collections continue to be cared for, used, and expanded. In 2009 and 2008, the Houston Zoo expended approximately \$313,000 and \$239,000, respectively, to expand its collections.

In an ongoing commitment to enhance worldwide reproduction and conservation of animals, the Houston Zoo exchanges animals with other organizations. Consistent with industry practice, the Houston Zoo does not record any liability for such exchange arrangements, as generally these arrangements are without monetary consideration.

Net asset classification – Contributions, investment return, and related net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions whose use is restricted by the donor to specific purposes or time periods. When a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted to investment in perpetuity. Investment return may be used to fund specified programs.

Contributions are recorded at fair value when a commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are included in revenue when the conditions are substantially met.

Fees for service – Revenue from admissions, concessions, educational program fees and guest program fees services such as food vendors and stroller rental are recognized when the related services are provided. Fees for services collected in advance are recorded as deferred revenue until earned.

Donated materials, use of facilities and services – Donated materials and use of facilities are recorded at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Advertising costs are expensed as incurred. Advertising expense of \$755,095 and \$750,971 was recorded in fiscal 2009 and 2008, respectively.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

## **NOTE 2 – ZOO OPERATIONS AGREEMENT**

In 2002, the City of Houston (the City) entered into a fifty-year lease for the land, buildings and improvements of the zoo premises with the Houston Zoo Development Corporation (HZDC). HZDC is a Texas local government corporation created by the City for the sole purpose of leasing the zoo premises.

Concurrently, the HZDC entered into a fifty-year operating agreement with the Houston Zoo to operate, maintain, manage, and develop the zoo premises. Under the operating agreement with HZDC, the Houston Zoo receives an annual management fee that will be increased each year based on the Consumer Price Index. The management fee is subject to annual appropriation and budget approval by the City. The operating agreement can be terminated by the Houston Zoo if the annual appropriation is not approved by the City. The Houston Zoo recognized a management fee from the City of \$8,151,396 in 2009 and \$7,901,700 in 2008.

### NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2009</u>	<u>2008</u>
Demand deposits	\$ 1,236,824	\$ 800,708
Money market mutual funds	<u>9,680,334</u>	<u>8,234,998</u>
Total cash and cash equivalents	<u>\$ 10,917,158</u>	<u>\$ 9,035,706</u>

Bank deposits exceed the federally insured limits per depositor per institution.

### NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 17,831,533	\$ 13,345,819
Discount to net present value at 1.11% to 3.00%	<u>(361,061)</u>	<u>(366,957)</u>
Pledges receivable, net	<u>\$ 17,470,472</u>	<u>\$ 12,978,862</u>

Pledges receivable at June 30, 2009 are expected to be collected as follows:

Receivable in less than one year	\$ 6,835,866
Receivable in one to five years	<u>10,995,667</u>
Total pledges receivable	<u>\$ 17,831,533</u>

### NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 23,649,893	\$ 15,056,313
Construction in progress	7,919,100	14,257,759
Furniture, fixtures and equipment	<u>5,634,127</u>	<u>5,227,272</u>
Total property and equipment, at cost	37,203,120	34,541,344
Accumulated depreciation	<u>(7,170,392)</u>	<u>(5,333,884)</u>
Property and equipment, net	<u>\$ 30,032,728</u>	<u>\$ 29,207,460</u>

## NOTE 6 – INVESTMENTS

Investments consist of the following:

	<u>2009</u>	<u>2008</u>
Corporate bonds and notes	\$ 1,115,613	\$ 1,054,229
Equity mutual funds	821,091	1,166,663
Equity securities	663,239	561,629
Money market mutual funds	660,358	755,892
Real estate mutual funds	<u>44,800</u>	<u>83,340</u>
Total investments	<u>\$ 3,305,101</u>	<u>\$ 3,621,753</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Net investment return includes earnings on cash and cash equivalents and consists of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 340,457	\$ 862,130
Unrealized and realized gain on investments	<u>(541,119)</u>	<u>(356,454)</u>
Total investment return	<u>\$ (200,662)</u>	<u>\$ 505,676</u>

## NOTE 7 – FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Houston Zoo adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (FAS 157), which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined by FAS 157 are as follows:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the reporting date.
- *Level 2* – Inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived from or corroborated by observable data as of the reporting date.
- *Level 3* – Inputs include those that are significant to the fair value of the asset or liability and are generally less observable from objective resources and reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Assets measured at fair value on a recurring basis at June 30, 2009:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	\$ 24,248,303			\$ 24,248,303
Corporate bonds and notes		\$ 1,115,613		1,115,613
Equity mutual funds	821,091			821,091
Equity securities	663,239			663,239
Real estate mutual funds	<u>44,800</u>			<u>44,800</u>
Total	<u>\$ 25,777,433</u>	<u>\$ 1,115,613</u>	<u>\$ 0</u>	<u>\$ 26,893,046</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the net asset value of shares held at year end.
- *Corporate bonds and notes* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair value.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.

The valuation method used may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the management believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date. The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security.

## **NOTE 8 – ENDOWMENT FUNDS**

During 2009, the Houston Zoo adopted Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Additionally, it provides expanded disclosures about an organization's donor-restricted endowment funds and board-designated endowment funds.

The Board of Directors of the Houston Zoo has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Houston Zoo classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Houston Zoo in a manner consistent with the standard of prudence prescribed by

TUPMIFA. In accordance with TUPMIFA, the Houston Zoo considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Houston Zoo and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Houston Zoo
- The investment policies of the Houston Zoo

The Houston Zoo has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that are the greater of the Consumer Price Index plus 4% to 5% or a custom index, while assuming a moderate level of investment risk. The Houston Zoo expects its endowment funds, over time, to provide a real return of approximately 4% to 5% over the long term. Actual returns in any given year may vary from this amount.

Endowment funds are maintained in investment accounts which are managed by independent financial firms that follow guidance provided in an investment policy approved by the Board of Directors. To satisfy its long-term rate-of-return objectives, the Houston Zoo relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Houston Zoo targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Houston Zoo has a policy of appropriating for distribution each year 3% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned, but may not exceed the cumulative actual earnings and appreciation of the funds. In establishing this policy, the Houston Zoo considered the long-term expected return on its endowment. The Houston Zoo's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Houston Zoo to retain as a fund of perpetual duration. Deficiencies of this nature result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The deficiency is reported in unrestricted net assets as an aggregate deficiency of endowment funds.

Endowment funds by net asset classification are as follows:

	<u>2009</u>	<u>2008</u>
Permanently restricted net assets	\$ 3,476,494	\$ 3,300,996
Temporarily restricted net assets		239,004
Unrestricted net assets – aggregate deficiency of endowment funds	<u>(237,903)</u>	<u>                    </u>
Total endowment net assets	<u>\$ 3,238,591</u>	<u>\$ 3,540,000</u>

Changes in endowment net assets are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, July 1, 2007	\$ 0	\$ 476,830	\$ 2,898,003	\$ 3,374,833
Contributions			404,000	404,000
Investment return:				
Investment income		135,705		135,705
Net depreciation of investments		(306,862)	(1,007)	(307,869)
Appropriation of endowment assets for expenditure	<u>                    </u>	<u>(66,669)</u>	<u>                    </u>	<u>(66,669)</u>
Endowment net assets, June 30, 2008	0	239,004	3,300,996	3,540,000
Contributions			178,000	178,000
Investment return:				
Investment income		83,019		83,019
Net depreciation of investments	(237,903)	(301,988)	(2,502)	(542,393)
Appropriation of endowment assets for expenditure	<u>                    </u>	<u>(20,035)</u>	<u>                    </u>	<u>(20,035)</u>
Endowment net assets, June 30, 2009	<u>\$ (237,903)</u>	<u>\$ 0</u>	<u>\$ 3,476,494</u>	<u>\$ 3,238,591</u>

#### NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets are as follows:

	<u>2009</u>	<u>2008</u>
Property and equipment	\$ 21,555,597	\$ 14,083,350
Zoo operations	5,440,876	4,750,371
Board designated operating reserve	4,072,715	3,021,567
Designated for transition fund	151,766	153,216
Aggregate deficiency of endowment funds	<u>(237,903)</u>	<u>                    </u>
Total unrestricted net assets	<u>\$ 30,983,051</u>	<u>\$ 22,008,504</u>

## NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	BALANCE JUNE 30, 2008	CONTRIBUTIONS AND INVESTMENT RETURN	UTILIZED FOR ZOO PROGRAMS	BALANCE JUNE 30, 2009
African Forest Capital Campaign	\$ 33,310,494	\$ 11,525,398	\$ (6,799,669)	\$ 38,036,223
Various capital improvements	1,184,391	37,001	(855,929)	365,463
Animal acquisition	270,095	334,840	(285,139)	319,796
John P. McGovern Children's Zoo	203,394	(44,652)	(64,921)	93,821
Conservation	195,294	57,576	(194,312)	58,558
Other	<u>452,935</u>	<u>153,331</u>	<u>(151,617)</u>	<u>454,649</u>
Total temporarily restricted net assets	<u>\$ 35,616,603</u>	<u>\$ 12,063,494</u>	<u>\$ (8,351,587)</u>	<u>\$ 39,328,510</u>

## NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are endowments invested in perpetuity to support the following activities:

	2009	2008
Jane Block Endowment for the Children's Zoo	\$ 1,735,049	\$ 1,585,049
Conservation programs	632,206	632,206
Clark and Gordon Memorial special event endowment	548,734	548,734
Zoo Friends education exhibits	200,000	200,000
Martel Lecture Series	100,000	100,000
Fred Maier Beautification Fund	75,000	75,000
Morris Docent Education Award	50,000	50,000
Alban Heiser Conservation Award	35,120	37,622
Carter Education Internship	25,000	25,000
Other endowments	<u>75,385</u>	<u>47,385</u>
Total permanently restricted net assets	<u>\$ 3,476,494</u>	<u>\$ 3,300,996</u>

## NOTE 12 – RETIREMENT PLAN

The Houston Zoo retirement savings plan is qualified under §401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations and defer federal income taxes on the contributions. The Houston Zoo matches 100% of the first 3% of employee contributions and matches 50% of contributions from 3% to 5%. The Houston Zoo contributed approximately \$329,000 and \$307,000 to the plan during 2009 and 2008, respectively.

## NOTE 13 – CONCENTRATIONS OF CONTRIBUTIONS

At June 30, 2009, approximately 63% of pledges receivable are due from one individual and four foundations. At June 30, 2008, approximately 72% of pledges receivable are due from seven foundations and one individual.

In 2009, contributions from three donors accounted for 25% of total contributions. In 2008, contributions from five donors accounted for 37% of total contributions.

#### **NOTE 14 – SUBSEQUENT EVENTS**

On August 6, 2009, the Houston Zoo entered into a line of credit agreement with a financial institution for \$9 million. The line of credit bears interest at the greater of prime or LIBOR plus 2.5% and is collateralized by cash and pledges. On August 10, 2009, the Houston Zoo entered into a construction commitment for approximately \$24.5 million for the development of the African Forest project.

Management has evaluated subsequent events through September 24, 2009, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that need to be disclosed or would have an impact on reported net assets or change in net assets.

---