

Minnesota Zoological Garden

Apple Valley, Minnesota

Financial Statements
Auditors' Report
For the Years Ended
June 30, 2011 and 2010

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota Zoological Garden
Apple Valley, Minnesota

We have audited the accompanying financial statements of the business-type activities of Minnesota Zoological Garden (the Zoo), and Minnesota Zoo Foundation (the Foundation), a discretely presented component unit of the Zoo, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Zoo's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Foundation, a discretely presented component unit of the Zoo as of and for the years ended June 30, 2011 and 2010. The Foundation's financial statements were audited by other auditors whose report thereon, as of and for the Foundation's year ended June 30, 2011 and 2010 has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. 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 the 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, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Zoo, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Board of Directors
Minnesota Zoological Gardens

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2011, on our consideration of the Zoo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress for postemployment benefit plan, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
November 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Minnesota Zoological Garden's (the Zoo) financial performance provides an overview of the Zoo's financial activities for the fiscal years ending June 30, 2011 and 2010. Please read it in conjunction with the Zoo's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The Minnesota Zoo, a state agency, operates as a component enterprise fund of the State of Minnesota, maintaining a balanced budget each fiscal year.
- The assets of the Minnesota Zoo exceeded its liabilities at the close of fiscal year 2011 by \$86.9 million (net assets). Of this amount, \$83.3 million is invested in Property, Plant and Equipment, while a deficit of \$6.0 million is Unrestricted Net Assets.
- The Appropriations from the State of Minnesota (the State) decreased by \$21,215,175 from the prior year. Of this amount, the Bonding Fund Zoo Asset Preservation funds decreased \$6,000,000 from the prior year while the Zoo Master Plan appropriation decreased \$15,000,000 from the prior year. Finally, the operating appropriation decreased by \$212,000, the new Legacy Grant Appropriation was \$3,175 lower and the environmental fund appropriation remained the same as fiscal year 2010.
- In fiscal year 2011, the State appropriations which provided this revenue were from the General Fund: Operations, Environmental Fund: Lottery In Lieu of Sales Tax Grant, Arts & Culture Heritage Fund: Legacy Grant, Bonding Fund: Zoo Asset Preservation FY's 08, 09 and 10, Master Plan FY 10.
- Admissions revenues decreased 10.9% from the prior year. The total attendance decreased 12.2% for fiscal year 2011. Membership visits declined as did the number of regular and discount admission guests. Also, in addition to continuing the distribution of free passes through Community Action Agencies, the Zoo participated for the fifth year in the museum pass program through libraries in the Metropolitan area. This Museum pass program resulted in 168,000 guests receiving free admission over the last five years.
- The membership revenues increased to an all time high with the implementation of a rate increase and the number of memberships also increased from 41,964 to 42,788.
- The Minnesota Zoo Foundation secures private sector support for the Minnesota Zoo's programs. Fiscal year 2011 contributions to the Zoo increased by 19.2% compared to fiscal year 2010.
- At the end of the fiscal year the net assets decreased by \$4.8 million. This decrease is primarily attributed to depreciation expense.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Zoo's basic financial statements. The Zoo's basic financial statements are composed of the statements of net assets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. This report also contains supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the readers with an overall view of the Zoo's finances, in a manner similar to a private-sector business. Government-wide financial statements consist of the *statement of net assets* and the *statement of revenues and expenses and changes in net assets*, both of which are prepared using the accrual basis of accounting. The government-wide financial statements can be found immediately following this discussion and analysis.

The *statement of net assets* presents information on all of the Zoo's financial assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Zoo is improving or deteriorating. Other indicators of the Zoo's financial condition include the condition of its infrastructure, and events and trends that affect future revenues and expenses.

The *statement revenues and expenses and changes in net assets* reports on the cost of various activities carried out by the Zoo. The Zoo is principally supported by appropriations (through the State's General Fund Appropriation to the Zoo), and earned revenue from admissions, memberships, gift store, food service and monorail.

Notes to Financial Statements

The notes provide additional information that is essential in obtaining a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 to 29.

FINANCIAL ANALYSIS OF THE ZOO AS A WHOLE

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Zoo, assets exceeded liabilities by \$86.9 million as of June 30, 2011, which compares to \$91.7 million as of June 30, 2010.

	June 30,		
	2011	2010	2009
	Totals	Totals	Totals
			(Restated)
Assets:	(in thousands)	(in thousands)	(in thousands)
Current Assets	\$ 12,074	\$ 29,014	\$ 11,528
Capital and Other	<u>84,614</u>	<u>72,585</u>	<u>71,876</u>
Total Assets	96,688	101,599	83,404
Liabilities:			
Debt and Capital Lease Obligations	1,266	1,529	596
Other Liabilities	<u>8,515</u>	<u>8,316</u>	<u>7,082</u>
Total Liabilities	9,781	9,890	7,678
Net Assets:			
Invested in Capital Assets –			
Net of Related Debt	83,348	71,056	71,280
Restricted	9,557	25,346	7,208
Unrestricted	<u>(5,998)</u>	<u>(4,692)</u>	<u>(2,762)</u>
Total Net Assets	<u>\$ 86,907</u>	<u>\$ 91,709</u>	<u>\$ 75,726</u>

By far, the largest portion of the Zoo's net assets reflects the investment in capital assets (e.g. land, buildings, equipment), less any related debt used to acquire those assets that are still outstanding. The Zoo uses these capital assets to provide services to visitors; consequently, these assets are not available for future spending. Although the Zoo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The \$12.1 million in current assets includes \$4.13 million in bond proceeds for Asset Preservation, \$1.23 million for the Master Plan appropriation and \$2.98 million in Master Plan Construction Gifts that will be spent down in fiscal years 2012 and 2013.

Long-term debt outstanding has five principal components. They are the debt obligation the Zoo has for the bonds issued for the roof repair capital project initially issued in 1993; the debt obligation to the City of Apple Valley for assessments for utility upgrades issued in 1996; the debt on an interest free loan from the State Department of Administration for energy improvements initially issued in 2005; the debt on a lease for vehicles and equipment issued in 2007; and the debt on a lease for campus generators installed in 2010.

FINANCIAL ANALYSIS OF THE ZOO AS A WHOLE (continued)

Changes in Net Assets

The Zoo's total revenues of \$22.1 million were less than the \$26.9 million in total expenses for a decrease of \$4.8 million in net assets for fiscal year 2011. In fiscal year 2010, the Zoo's total revenues of \$43.1 million were more than the \$27.1 million in total expenses for an increase in net assets of \$16 million. The largest non-cash charge was depreciation expense of \$4.5 million in 2011 and \$4.4 million in 2010. The fiscal year 2011 salary expense decreased by \$701,064 due to workers compensation decrease and a reduction in post employment costs which reversed what happened in fiscal year 2010 when salary expense increased by \$874,866.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Zoo's investment in capital assets as of June 30, 2011, was \$143.5 million less accumulated depreciation of \$58.9 million, resulting in a net book value of \$84.6 million. This investment in capital assets includes land, buildings, equipment infrastructure and construction in progress. Infrastructure assets are long-lived capital assets, such as pavement and bridges that are normally stationary in nature.

Debt

Note 4 of the financial statements on page 18 provides a summary of the Zoo's long-term debt. All debt as of year-end is attributed to business-type activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic forecasts for fiscal year 2012 and beyond suggest that the recovery from the recession will be longer and slower than many anticipated a year ago and will impact the Minnesota economy for several years. While the actual revenues collected from state taxes exceeded projections for fiscal year 2011 by 2.3%, the Zoo's operating budget was short of final revenue expectations. This is attributed to the 12.2% drop in attendance and the related revenues impacted by the year long construction of the new entry. This project was completed early in fiscal year 2012. Given these factors, the Zoo built the fiscal year 2012 operating budget on an attendance projection of 1,275,000 which was a decrease from 2010 of 1,338,581 and an increase from fiscal year 2011 of 1,175,816. Anticipating the difficult state budget outcome, the Zoo implemented adjustments to offset reductions in the general fund for fiscal year 2012 while continuing to implement strategic plan initiatives. The Zoo received a significant increase for 2012 in the form of a \$1.5 million appropriation from the Legacy Fund which will allow new and expanded programming.

At the time of this analysis the Minnesota Zoo is entering the capital budget cycle of the legislative process. The past six legislative sessions have resulted in over \$72 million in new capital investment and debt relief that the state has provided. These funds have allowed the Zoo to complete the Russia's Grizzly Coast Exhibit; to renew the Minnesota Trail; to significantly improve the Central Plaza and to complete numerous other projects to take care of the infrastructure of the Zoo. In addition, the Zoo completed in early fiscal year 2012, construction of a new entrance with additional classroom space, a new penguin exhibit and other Heart of the Zoo projects. Six years of significant investment by the Zoo's owner, the State, positions the Zoo well as the Minnesota Zoo Foundation continues a major comprehensive campaign raising private funds.

The Zoo will submit to the Governor, for his consideration, and recommendation to the legislature, a capital budget request that funds asset preservation and Master Plan projects for 2013 and 2014. The Zoo looks forward to continuing to develop as one of Minnesota's premier cultural institutions.

CONTACTING THE MINNESOTA ZOOLOGICAL GARDEN'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, visitors and creditors with a general overview of the Zoo's finances and to show the Zoo's accountability for the funds and assets it receives. If you have any questions about this report, or should you need additional financial information, contact the Minnesota Zoological Garden's Finance Department at Minnesota Zoo, 13000 Zoo Boulevard, Apple Valley, MN 55124.

MINNESOTA ZOOLOGICAL GARDEN
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,734,139	\$ 2,960,885
Restricted Cash	9,926,161	25,659,546
Accounts Receivable	269,925	261,454
Prepaid Interest	2,434	2,642
Stockroom Supplies	141,363	129,205
Total Current Assets	<u>12,074,022</u>	<u>29,013,732</u>
Property, Plant and Equipment - Net	84,613,617	72,585,269
Animal and Horticultural Collections	<u>1</u>	<u>1</u>
Total Assets	<u>96,687,640</u>	<u>101,599,002</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	1,454,841	1,281,848
Accrued Salaries and Compensated Absences	2,982,442	2,821,059
Other Accrued Liabilities	2,427	8,438
Current Portion of Long-term Debt	237,423	263,697
Current Portion of Workers' Compensation Liabilities	219,355	306,870
Deferred Membership Revenue	2,168,212	2,014,845
Deferred Revenue - Operating Appropriations	-	76,320
Deferred Program Revenue	282,817	283,002
Total Current Liabilities	<u>7,347,517</u>	<u>7,056,079</u>
Long-term Liabilities:		
Long-term Debt	1,028,347	1,265,771
Workers' Compensation Liabilities	1,221,025	1,417,891
Other Postemployment Benefits	184,000	150,000
Total Long-term Liabilities	<u>2,433,372</u>	<u>2,833,662</u>
Total Liabilities	<u>9,780,889</u>	<u>9,889,741</u>
<u>NET ASSETS</u>		
Invested in Property, Plant and Equipment - Net of Related Debt	83,347,847	71,055,801
Unrestricted	(5,998,515)	(4,692,341)
Restricted - State Appropriations	5,198,641	22,430,547
Restricted - Other	4,358,778	2,915,254
Total Net Assets	<u>\$ 86,906,751</u>	<u>\$ 91,709,261</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

MINNESOTA ZOOLOGICAL GARDEN
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Admissions	\$ 4,787,185	\$ 5,372,899
Memberships	3,986,143	3,927,184
Other	1,564,493	1,361,131
Gift Store	281,443	391,429
Food Service	703,367	766,700
Monorail	373,767	398,126
Total Operating Revenues	<u>11,696,398</u>	<u>12,217,469</u>
Operating Expenses:		
Salaries and Fringe Benefits	14,485,085	15,157,169
Depreciation and Amortization	4,504,857	4,378,906
Supplies and Materials	1,905,517	1,894,810
Purchased Services	1,113,166	920,089
Utilities	1,522,389	1,570,754
Advertising and Printing	790,985	901,913
Other	541,267	693,828
Repairs and Maintenance	1,993,499	1,593,118
Total Operating Expenses	<u>26,856,765</u>	<u>27,110,587</u>
Operating Loss	(15,160,367)	(14,893,118)
Non-Operating Revenues (Expenses):		
Appropriations from the State of Minnesota	6,616,786	27,679,321
Contributions	3,752,015	3,147,855
Investment Income	36,892	66,456
Interest Expense	(47,836)	(17,464)
Total Non-Operating Revenues	<u>10,357,857</u>	<u>30,876,168</u>
Change in Net Assets	(4,802,510)	15,983,050
Net Assets - Beginning of Year	<u>91,709,261</u>	<u>75,726,211</u>
Net Assets - End of Year	<u>\$ 86,906,751</u>	<u>\$ 91,709,261</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

MINNESOTA ZOOLOGICAL GARDEN
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 11,841,109	\$ 12,360,412
Payments to Employees	(14,574,083)	(14,354,680)
Payments to Suppliers for Goods and Services	(7,711,791)	(7,262,082)
Net Cash Used by Operating Activities	<u>(10,444,765)</u>	<u>(9,256,350)</u>
Cash Flows from Noncapital and Related Financing Activities:		
Cash Received from State of Minnesota	6,540,466	6,755,641
Cash Received from Contributors and Grants	1,932,160	1,819,906
Net Cash Provided by Noncapital and Related Financing Activities	<u>8,472,626</u>	<u>8,575,547</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Property, Plant, and Equipment	(16,533,205)	(3,985,017)
Principal Payments on Long-term Debt	(263,698)	(169,293)
Interest Paid on Long-term Debt and Capital Lease Obligations	(47,836)	(17,464)
Cash Received from State of Minnesota for Capital Projects	-	21,000,000
Cash Received from Contributors and Grants for Capital Projects	1,819,855	1,327,949
Net Cash Provided (Used) by Capital Related Financing Activities	<u>(15,024,884)</u>	<u>18,156,175</u>
Cash Flows from Investing Activities:		
Investment Income	36,892	66,456
Net Cash Provided by Investing Activities	<u>36,892</u>	<u>66,456</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(16,960,131)	17,541,828
Cash and Cash Equivalents - Beginning of Year	<u>28,620,431</u>	<u>11,078,603</u>
Cash and Cash Equivalents - End of Year	<u>\$ 11,660,300</u>	<u>\$ 28,620,431</u>
Reconciliation of Operating Income to Net Cash		
Used by Operating Activities:		
Operating Loss	\$ (15,160,367)	\$ (14,893,118)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	4,504,857	4,378,906
(Increase) Decrease in Assets:		
Accounts Receivable	(8,471)	48,298
Prepaid Interest	208	(18)
Stockroom Supplies	(12,158)	8,326
Increases (Decreases) in Liabilities:		
Accounts Payable	172,993	302,837
Accrued Salaries and Compensated Absences	161,383	147,183
Other Accrued Liabilities	(6,011)	1,267
Workers' Compensation Liabilities	(284,381)	505,306
Deferred Membership Revenue	153,367	43,686
Deferred Program Revenue	(185)	50,977
Other Postemployment Benefits	34,000	150,000
Net Cash Used by Operating Activities	<u>\$ (10,444,765)</u>	<u>\$ (9,256,350)</u>
Cash and Cash Equivalents	\$ 1,734,139	\$ 2,960,885
Restricted Cash	9,926,161	25,659,546
	<u>\$ 11,660,300</u>	<u>\$ 28,620,431</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

MINNESOTA ZOO FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 2,126,211	\$ 1,162,381
Contributions Receivable	978,713	2,048,995
Prepaid Expense and Other	24,894	12,746
Total Current Assets	<u>3,129,818</u>	<u>3,224,122</u>
Non Current Assets:		
Contributions Receivable	647,552	748,914
Investments	725,683	465,857
Beneficial Interest in Perpetual Trust	1,242,930	1,132,636
Total Assets	<u>\$ 5,745,983</u>	<u>\$ 5,571,529</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities:		
Accounts Payable	\$ 26,804	\$ 24,795
Accrued Vacation and Other Liabilities	57,934	61,399
Total Current Liabilities	<u>84,738</u>	<u>86,194</u>
Non Current Liabilities:		
Charitable Gift Annuity	50,188	26,621
Total Liabilities	<u>134,926</u>	<u>112,815</u>
Net Assets:		
Unrestricted:		
Undesignated	956,553	692,705
Board Designated	250,000	250,000
Total Unrestricted	<u>1,206,553</u>	<u>942,705</u>
Temporarily restricted	2,702,967	2,946,571
Permanently restricted	1,701,537	1,569,438
Total Net Assets	<u>5,611,057</u>	<u>5,458,714</u>
Total Liabilities and Net Assets	<u>\$ 5,745,983</u>	<u>\$ 5,571,529</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

MINNESOTA ZOO FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions and Grants	\$ 1,657,082	\$ 2,737,097	\$ 1,382	\$ 4,395,561	\$ 910,146	\$ 1,816,097	\$ 40,780	\$ 2,767,023
Change in Beneficial Interest in Trust	-	-	110,294	110,294	-	-	60,193	60,193
In-kind Contributions	250,141	-	-	250,141	115,461	-	-	115,461
Special Events, Net	379,797	160,129	20,423	560,349	402,315	60,395	-	462,710
Investment Income	2,779	155,699	-	158,478	2,891	81,715	-	84,606
Other Income	54,949	-	-	54,949	-	-	-	-
Net Assets Released from Restrictions:								
Satisfaction of Capital Restrictions	319,855	(319,855)	-	-	341,149	(341,149)	-	-
Satisfaction of Program Restrictions	1,280,689	(1,280,689)	-	-	2,460,898	(2,460,898)	-	-
Satisfaction of Time Restrictions	1,695,985	(1,695,985)	-	-	651,907	(651,907)	-	-
Total Support and Revenue	5,641,277	(243,604)	132,099	5,529,772	4,884,767	(1,495,747)	100,973	3,489,993
Expense:								
Program Services	4,427,933	-	-	4,427,933	3,793,795	-	-	3,793,795
Support Services:								
Management and General	660,654	-	-	660,654	619,990	-	-	619,990
Fundraising	288,842	-	-	288,842	286,091	-	-	286,091
Total Support Services	949,496	-	-	949,496	906,081	-	-	906,081
Total Expense	5,377,429	-	-	5,377,429	4,699,876	-	-	4,699,876
Change in Net Assets	263,848	(243,604)	132,099	152,343	184,891	(1,495,747)	100,973	(1,209,883)
Net Assets - Beginning of Year	942,705	2,946,571	1,569,438	5,458,714	757,814	4,442,318	1,468,465	6,668,597
Net Assets - End of Year	\$ 1,206,553	\$ 2,702,967	\$ 1,701,537	\$ 5,611,057	\$ 942,705	\$ 2,946,571	\$ 1,569,438	\$ 5,458,714

The accompanying Notes to Financial Statements
are an integral part of these statements.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies

Organizational Purpose and Reporting Entity

The Minnesota Zoological Garden (the Zoo) was created by the Minnesota State Legislature as a state agency in 1969. It is an enterprise fund of the State of Minnesota. Its operations are controlled by the Minnesota Zoological Board. The Zoo exists for the collection, habitation, preservation, care, exhibition and study of wild and domestic animals.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of the Zoo in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Minnesota Zoo Foundation is considered significant to the Zoo and is included as a discretely presented component unit and separately identified in Note 16. Complete financial statements may be obtained from the Minnesota Zoo Foundation, 13000 Zoo Boulevard, Apple Valley, MN 55124.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as applicable to an enterprise fund. In order to observe the limitation and restrictions placed on resources available to the Zoo, the accounts are maintained as separate funds in the Zoo's accounting system. A description of the funds is as follows:

General Fund – This fund is used to account for resources for which the Zoo has been granted discretionary control for use in its general operations.

Restricted Fund – This fund is used to account for resources that are expendable only for purposes specified by the grantor.

The Zoo applies all applicable Financial Accounting Standards Board statements issued prior to November 30, 1989, and GASB statements since that date.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Zoo considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

No allowance for bad debts has been provided as accounts receivable are considered collectable.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (continued)

Inventory (Stockroom Supplies)

Inventory is valued at the lower of cost, determined on a first-in first-out basis (FIFO), or market.

Property, Plant and Equipment

All major expenditures for property, plant and equipment above \$2,500 are capitalized at cost. Contributed equipment is recorded at fair market value at date of donation. Depreciation is provided through the use of the straight-line method over the estimated useful lives of the assets. Projects under construction are accounted for as construction in progress until completion, at which time the cost of the asset is depreciated over its useful life. Estimated useful lives are as follows:

Buildings	20 – 40 years
Improvements	20 years
Equipment	3 – 15 years
Infrastructure	20 – 40 years

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in revenue or expense.

Animal and Horticultural Collections

The Zoo maintains animal and horticultural collections for the public exhibition, education and research in furtherance of public service. These collections are preserved, unencumbered, and cannot be disposed of for financial gain. The Zoo records additions and deletions of the collection in the statement of revenues, expenses and change in net assets. As such, collections are recorded at a nominal value of \$1 in the statement of net assets.

Accrued Compensated Absences

Employees are entitled to accrue and carry forward vacation and sick leave. The amounts that employees are entitled to accrue are based on length of service. Upon termination of employment, employees are entitled to be paid for accumulated unused vacation leave, subject to certain limitations. In addition, fully vested employees are entitled to be paid a portion of their unused sick leave upon termination. Vesting is generally achieved based upon length of continuous service or upon retirement on or after age 65.

The Zoo accrues amounts for compensated absences as earned which, in the case of accumulated unused sick leave, involves applying assumptions for employee turnover.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (continued)

Deferred Membership Revenue

The Zoo recognizes revenue from the sale of memberships over the term of the membership, generally one year from the date of issue.

Deferred Operating Appropriations

The Zoo recognizes revenue from operating appropriations when eligibility requirements are met or when funds are received for any amounts that have been appropriated for the current fiscal year. Any amounts appropriated and received for future years would be included in deferred revenue.

Deferred Program Revenue

The Zoo recognizes revenue from program sales in the month the programs are performed.

Operating Activities

Operating activities as reported in the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state appropriations, federal, state and private grants, and investment income.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions can affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The most significant area, which requires the use of management's estimates, relates to the workers' compensation liability.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

2. Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash consisted of the following as of:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 33,200	\$ 33,200
Cash and Restricted Cash with the State Treasurer	<u>11,627,100</u>	<u>28,587,231</u>
	<u>\$ 11,660,300</u>	<u>\$ 28,620,431</u>

The bank's balance on June 30, 2011 and 2010 was in excess of FDIC limits. However, Minnesota statutes require that deposits be collateralized by depository insurance or a combination of depository insurance and collateral securities held in the Zoo's name by an agent of the Zoo, and these requirements were met at June 30, 2011 and 2010.

Cash restrictions consisted of the following as of:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Asset Preservation – 2010	\$ 4,077,089	\$ 6,000,000
Master Plan Gifts – 2011	1,860,457	-
Master Plan 2010	1,233,170	14,991,718
Master Plan Gifts - 2010	1,117,466	1,675,529
Education	763,358	590,049
New Zoo Safari	196,392	238,952
Tiger Programs	192,349	293,926
Legacy Grant	143,420	144,210
Conservation	109,374	15,944
Other Restricted Gifts	92,071	31,961
Zoo Asset Preservation – 2008	55,149	373,017
Mentor	54,402	40,197
Capital Improvements – 2009	28,306	1,260,885
Creatures Under the Canopy Exhibit	<u>3,158</u>	<u>3,158</u>
	<u>\$ 9,926,161</u>	<u>\$ 25,659,546</u>

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. Property, Plant and Equipment

Summary of the changes in Property, Plant and Equipment (capital assets) for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Capital assets, Not Subject to Depreciation:					
Land	\$ 1,174,958	\$ -	\$ -	\$ -	\$ 1,174,958
Construction in Progress	<u>3,271,463</u>	<u>15,539,000</u>	<u>-</u>	<u>-</u>	<u>18,810,463</u>
Total Capital Assets, Not Subject to Depreciation	4,446,421	15,539,000	-	-	19,985,421
Capital Assets, Subject to Depreciation:					
Buildings and Improvements	115,306,712	952,840	-	-	116,259,552
Equipment	<u>7,386,709</u>	<u>41,365</u>	<u>166,681</u>	<u>-</u>	<u>7,261,393</u>
Total Capital Assets, Subject to Depreciation	122,693,421	994,205	166,681	-	123,520,945
Less Accumulated Depreciation:					
Buildings and Improvements	49,365,116	4,303,585	-	-	53,668,701
Equipment	<u>5,189,457</u>	<u>201,272</u>	<u>166,681</u>	<u>-</u>	<u>5,224,048</u>
Total Accumulated Depreciation	<u>54,554,573</u>	<u>4,504,857</u>	<u>166,681</u>	<u>-</u>	<u>58,892,749</u>
Total Capital Assets Subject to Depreciation, Net	<u>68,138,848</u>	<u>(3,510,652)</u>	<u>-</u>	<u>-</u>	<u>64,628,196</u>
Total Capital Assets, Net	<u>\$ 72,585,269</u>	<u>\$ 12,028,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,613,617</u>

Summary of the changes in Property, Plant and Equipment (capital assets) for the year ended June 30, 2010 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Capital Assets, Not Subject to Depreciation:					
Land	\$ 1,174,958	\$ -	\$ -	\$ -	\$ 1,174,958
Construction in Progress	<u>2,223,269</u>	<u>2,401,945</u>	<u>-</u>	<u>(1,353,751)</u>	<u>3,271,463</u>
Total Capital Assets, Not Subject to Depreciation	3,398,227	2,401,945	-	(1,353,751)	4,446,421
Capital Assets, Subject to Depreciation:					
Buildings and Improvements	112,500,135	1,452,826	-	1,353,751	115,306,712
Equipment	<u>6,172,124</u>	<u>1,233,014</u>	<u>18,429</u>	<u>-</u>	<u>7,386,709</u>
Total Capital Assets, Subject to Depreciation	118,672,259	2,685,840	18,429	1,353,751	122,693,421
Less Accumulated Depreciation:					
Buildings and Improvements	45,154,025	4,211,091	-	-	49,365,116
Equipment	<u>5,040,071</u>	<u>167,815</u>	<u>18,429</u>	<u>-</u>	<u>5,189,457</u>
Total Accumulated Depreciation	<u>50,194,096</u>	<u>4,378,906</u>	<u>18,429</u>	<u>-</u>	<u>54,554,573</u>
Total Capital Assets Subject to Depreciation, Net	<u>68,478,163</u>	<u>(1,693,066)</u>	<u>-</u>	<u>1,353,751</u>	<u>68,138,848</u>
Total Capital Assets, Net	<u>\$ 71,876,390</u>	<u>\$ 708,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,585,269</u>

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

4. Long-term Debt

Summaries of amounts that are due within one year are reported in the current liability section of the statement of net assets. The changes in long-term debt for the year ending June 30, 2011 are as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Liabilities for:					
Notes Payable	\$ 193,111	\$ -	\$ 47,617	\$ 145,494	\$ 47,616
General Obligation Bonds	65,798	-	35,655	30,143	15,082
City Assessments	36,023	-	24,006	12,017	12,017
Capital Leases	<u>1,234,536</u>	<u>-</u>	<u>156,420</u>	<u>1,078,116</u>	<u>162,708</u>
Total Long-term Debt	<u>\$ 1,529,468</u>	<u>\$ -</u>	<u>\$ 263,698</u>	<u>\$ 1,265,770</u>	<u>\$ 237,423</u>

The changes in long-term debt for the year ending June 30, 2010 are as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Liabilities for:					
Notes Payable	\$ 240,727	\$ -	\$ 47,616	\$ 193,111	\$ 47,616
General Obligation Bonds	101,425	-	35,627	65,798	35,655
City Assessments	60,029	-	24,006	36,023	24,006
Capital Leases	<u>193,812</u>	<u>1,102,768</u>	<u>62,044</u>	<u>1,234,536</u>	<u>156,420</u>
Total Long-term Debt	<u>\$ 595,993</u>	<u>\$ 1,102,768</u>	<u>\$ 169,293</u>	<u>\$ 1,529,468</u>	<u>\$ 263,697</u>

Payments of long-term debt are as follows:

Due in the Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2012	\$ 237,423	\$ 44,339
2013	162,064	36,883
2014	153,582	32,642
2015	107,452	28,509
2016	111,750	24,211
2017 - 2020	<u>493,499</u>	<u>46,151</u>
Total	<u>\$ 1,265,770</u>	<u>\$ 212,735</u>

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

4. Long-term Debt (continued)

The breakdown of long-term debt was as follows as of June 30, 2011 and 2010:

Interest free note payable to the State of Minnesota– Department of Administration. Payable in monthly amount of \$3,968 with the last payment due in June 2014. The note is unsecured. The balance at June 30, 2011 and 2010 was \$145,494 and \$193,111, respectively.

In fiscal year 2007, the Zoo capitalized a lease on vehicles and equipment. It was a 4.03% installment note payable to Wells Fargo in the amount of \$310,000. Payable in bi-annual payments of \$34,618, including interest, with the last payment due June 1, 2012. Equipment, capitalized in the amount of \$129,739 and \$166,978 (net book value at June 30, 2011 and 2010, respectively), began amortizing on May 10, 2007. The principal balance due at June 30, 2011 and 2010 was \$67,198 and \$131,768, respectively.

In fiscal year 1993, the Zoo received \$1,815,000 from the State for the financing of the roof repair capital project. This project was financed by general obligation bonds (GOB) issued by the State in July of 1992 and August of 1993. Pursuant to State statute, the Zoo is obligated to pay one-third of the debt service costs of GOB in installments over 20 years. The principal balance due at June 30, 2011 and 2010 was \$30,143 and \$65,798, respectively.

City of Apple Valley Assessments due through the fiscal year ending June 30, 2012. Payments are made twice a year. The principal balance due at June 30, 2011 and 2010 was \$12,017 and \$36,023, respectively.

Capitalized lease on equipment. The lease is payable in monthly amounts of \$17,526, including interest, with the last payment due in May 2020. Imputed interest is 4%. Equipment has been capitalized in the amount of \$1,047,628 and \$1,102,768 (net book value at June 30, 2011 and 2010, respectively) and began amortizing July 1, 2010. The principal amount due at June 30, 2011 and 2010 was \$1,010,918 and \$1,102,768, respectively.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Net Other Postemployment Benefits

The Zoo provides health insurance benefits for certain retired employees under a single employer fully insured plan, as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2009, there were approximately eight retirees receiving health benefits from the health plan.

The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following shows the components of the annual OPEB cost for 2011 and 2010, the amount actually contributed to the plan, and the changes in the net OPEB obligation for the years ended:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Annual Required Contribution (ARC)	\$ 142,000	\$ 230,000
Interest on Net OPEB Obligation	7,000	-
Adjustment to ARC	(6,000)	-
Contributions During the Year	<u>(109,000)</u>	<u>(80,000)</u>
Increase in Net OPEB Obligation	34,000	150,000
Net OPEB Obligation, Beginning of Year	150,000	-
Net OPEB Obligation, End of Year	<u>\$ 184,000</u>	<u>\$ 150,000</u>

The Zoo's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the years ended:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Beginning of the Year Net OPEB Obligation	\$ 150,000	\$ -
Annual OPEB Cost	143,000	230,000
Employer Contribution	<u>(109,000)</u>	<u>(80,000)</u>
Net OPEB Obligation, End of Year	<u>\$ 184,000</u>	<u>\$ 150,000</u>
Percentage Contributed	76.22%	34.78%

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Net Other Postemployment Benefits (continued)

The funded status and progress of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
7/1/10	-	\$ 1,717,000	\$1,717,000	0.00%	\$ 11,644,000	14.70%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actual value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75% discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 8.97% initially, reduced incrementally to an ultimate rate of 5% after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

6. Employee Pension Plans

Substantially all employees of the Zoo are covered by pension plans administered by the Minnesota State Retirement System (MSRS). The MSRS administers the General Employee Plan (the General Plan) and the Unclassified Employees Retirement Plan (the Unclassified Plan), which are cost sharing, multiple-employer, public employee retirement plans. The General Plan is a defined benefit plan, and the Unclassified Plan is a defined contribution plan. All full-time and certain part-time employees are required to participate in the plans. Both plans provide for death and disability benefits.

The Zoo does not issue a separate financial report of the pension plan since they are included in the Comprehensive Annual Financial Report for the Minnesota State Retirement System. To obtain a copy of the report, write to:

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, MN 55103-3000

A downloadable copy can also be obtained on the internet at:

www.msrs.state.mn.us/form/index.htmls.

For the General Plan, employees who retire at age 62 and have at least 30 years of service are entitled to an annual retirement benefit, payable monthly for life, equal to 1.2% of the average of their highest five (5) successive years of salary for each year of credited service up to ten (10) years and 1.7% for each year of credited service over ten (10) years. Employees may retire at any age with at least 30 years of service or at age 55 with at least three (3) years service credit and receive reduced retirement benefits. Benefits are established by State statute.

Employees covered by the Unclassified Plan are entitled to receive the cash value of their account upon termination of public service as a lump sum or by purchasing an annuity or a combination thereof.

Covered employees are required by State statute to contribute fixed percentages of their gross earnings to the pension plans. Required contribution rates, amounts contributed and covered payroll for the years ended June 30, for the plans are as follows:

	Covered Payroll	Zoo Contribution		Participant Contribution	
		Amount	%	Amount	%
2011:					
Unclassified Plan	\$ 623,827	\$ 37,430	6%	\$ 31,191	5%
General Plan	11,057,687	552,884	5%	552,884	5%
2010:					
Unclassified Plan	\$ 623,215	\$ 37,393	6%	\$ 24,929	4%
General Plan	10,022,450	476,066	4.75%	476,066	4.75%
2009:					
Unclassified Plan	\$ 609,335	\$ 36,560	6%	\$ 24,373	4%
General Plan	9,799,570	440,981	4.5%	440,981	4.5%

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

6. Employee Pension Plans (continued)

The “pension benefit obligation” for defined benefit plans is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended in accumulating sufficient assets to pay benefits when due and making comparisons among Public Employee Retirement Systems and other employers. The MSRS does not make separate measurements of assets and pension benefit obligations for individual employers like the Zoo.

The Zoo’s contribution for the year ended June 30, 2011 and 2010, to the Plan represented less than 1% of total contributions required for all participating entities.

Ten-year historical trend information showing MSRS’s progress in accumulating sufficient assets to pay benefits when due is presented in the MSRS June 30, 2011, comprehensive financial report.

7. Transactions with State

Services received from various State agencies include legal services from the Attorney General’s Office, audit services from the Office of the Legislative Auditor, accounting, banking, human resource, and insurance services from Minnesota Management and Budget, and purchasing and contract management services from the Department of Administration. These services are either charged to the Zoo through an administration fee or provided at no charge. During the years ended June 30, 2011 and 2010, the Zoo incurred \$213,036 and \$152,843, respectively, for various State services.

8. Commitments and Contingencies

During the normal course of business, the Zoo receives funds from federal, state and local governments and private donors for capital and special projects. Substantially all of these funds are subject to future audit by various federal and state agencies; however, it is the Zoo’s opinion that resulting adjustments, if any, would not have a material effect on the financial position of the Zoo.

As of June 30, 2011, the Zoo had outstanding commitments of approximately \$1.6 million related to construction contracts for various projects.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

9. Restricted - Other Net Assets

Other restricted net assets consisted of an amount for the following as of June 30:

	<u>2011</u>	<u>2010</u>
Zoo Programs	<u>\$4,358,778</u>	<u>\$2,915,254</u>

In addition, the following is a summary of the restricted activity for the years ended:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Contributions	\$ 2,948,543	\$ 2,529,446
Less Expenses and Capital Improvements:		
Capital Improvements	542,988	1,443,442
Salaries and Fringe Benefits	738,294	594,448
Supplies and Materials	25,213	35,465
Purchased Services	53,954	10,561
Advertising and Printing	13,450	3,972
Other	130,408	115,860
Repairs and Maintenance	<u>712</u>	<u>89</u>
Change in Restricted Net Assets	1,443,524	325,609
Restricted Net Assets – Beginning Balance	<u>2,915,254</u>	<u>2,589,645</u>
	<u>\$ 4,358,778</u>	<u>\$ 2,915,254</u>

10. School of Environmental Studies

During 1995, the Apple Valley Economic Development Authority (EDA) issued \$8,910,000 of bonds (the Bonds) to the Rosemount-Apple Valley-Eagan Independent School District #196 (the District) for the purpose of constructing a building for the School of Environmental Studies. The Zoo entered into a ground lease agreement with the EDA in connection with the facilitation of the financing of the building with the school district. The lease term for the ground lease ends on the earlier of 50 years or such earlier date that the Bonds are fully paid, defeased, or discharged. The EDA then leased the land and the building constructed with the proceeds of the \$8,910,000 bonds to the District for a period of 20 years. The Zoo is not obligated to make payment on the Bonds but does have periodic use of the facility for summer camp classes and other educational opportunities. When the Bonds are paid off by the District, the District will have continued use of the facility as long as it is needed with the Zoo becoming the successor lessor. No payments are due to the Zoo for the ground lease.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

10. School of Environmental Studies (continued)

In the event the District were to default on the bond payments, the Zoo has the option to assume the debt of the District. If the Zoo does not assume the payments, First National Trust Association (the Trustee) has the right, throughout the remainder of the term, to devote the premises to such alternative uses, including private business use, as the Trustee may, in its sole and absolute discretion, deem advisable or necessary in protecting the rights of the owners of the bonds.

11. IMAX Theater

The Zoo signed a design, build and operate agreement and ground lease with a vendor on January 16, 1996 for the purpose of contracting for the construction and operation of a giant screen theater. On July 17, 2000, the Zoo signed a ground lease assignment and amending agreement with Imax Holding Co. (IMAX) to operate the theater. No payments are due from IMAX to the Zoo, except for certain contingent payments due upon defined milestones being achieved.

The IMAX theater was built on the Zoo property in 1996 and 1997 with an original construction cost of approximately \$4 million. Per the contract, the company operating the theater will, at the expiration of the term ending June 30, 2032, relinquish and convey the premises and all improvements to the Zoo without any cost to the Zoo.

12. Gift Store Contract

In August 2003, the Zoo entered into an agreement with a vendor to operate the gift store. The original five-year agreement ended September 2, 2009. An amendment agreement was entered into extending the agreement an additional seven years, expiring December 31, 2015, with an option to renew for a mutually agreeable period of time and terms. If the agreement is terminated, the Zoo agrees to purchase gift inventory that is saleable and in good condition from the vendor. Additionally, the Zoo would pay for the remaining unamortized portion of the leasehold improvements the vendor has made to provide gift store operation over the term of the agreement.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

13. Risk Management

The Zoo is exposed to various risks of loss related to tort, theft of, damage to, or destruction of assets; error or omissions; and employer obligations. The Zoo manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund, a self insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the State and is provided by the Minnesota Risk Management Fund. The Zoo also purchases optional physical damage coverage for vehicles.

Property and casualty coverage is also provided by the Minnesota Risk Management Fund. The Zoo had coverage for Real and Personal property up to \$111,405,494 in fiscal years 2011 and 2010. The Fund provided the following coverage for fiscal years 2011 and 2010:

Deductible	\$25,000
Fund Responsibility	\$1,000,000
Primary Re-Insurance Coverage	\$1,000,001 to \$25,000,000
Multiple Re-Insurers' Coverage	\$25,000,001 to \$1,000,000,000
Bodily Injury and Property Damage per Person	\$500,000
Bodily Injury and Property Damage per Occurrence	\$1,500,000
Annual Maximum Paid by Fund, Excess by Reinsurer	\$4,000,000
Maximum Deductible for Additional Claims	\$25,000

The Zoo retains the risk of loss. The Zoo did not have any settlements in excess of coverage in the last three years.

The Minnesota Risk Management Fund purchases volunteer insurance on the open market for the Zoo.

The Zoo participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Workers' compensation is covered through the State participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through a self insurance pool of State agencies. The Zoo belongs to this pool to help manage the volatility of claims. Annual premiums are assessed by the pool based on the most recent five years of claims history. From this pool, all workers' compensation claims are paid to the State Workers' Compensation Fund.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

13. Risk Management (continued)

The following table presents changes in the balances of workers' compensation claim liability during the year ended June 30, 2011:

<u>Beginning Liability</u>	<u>Net Additions and Changes</u>	<u>Payments</u>	<u>Ending Liabilities</u>
\$1,724,761	\$42,008	\$326,389	\$1,440,380

The following table presents changes in the balances of workers' compensation claim liability during the year ended June 30, 2010:

<u>Beginning Liability</u>	<u>Net Additions and Changes</u>	<u>Payments</u>	<u>Ending Liabilities</u>
\$1,219,455	\$921,387	\$416,081	\$1,724,761

14. Related Parties

During 2011, the Zoo paid approximately \$14 million to a construction company for the Heart of the Zoo project. The company is partially owned by a board member, but was not a board member when the contract was signed. As of June 30, 2011, there was approximately \$1 million to be paid on these contracts.

15. Early Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. An early retirement incentive was signed into law in May 2010 for state employees. The incentive provides for contributions to a health care savings plan, in an amount equal to the value of up to 24 months of employer paid medical and dental insurance premiums for those to meet the statutory eligibility requirements. The number of retired Zoo employees who have received this benefit and the amount of future liability for those persons as of June 30, 2011:

<u>Fiscal Year</u>	<u>Number of People Receiving Benefit</u>	<u>Future Liability</u>
2011	5	\$104,000

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

16. Component Unit

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Minnesota Zoo Foundation, a legally separate and tax-exempt entity, is reported as a component unit.

Minnesota Zoo Foundation's (the Foundation) primary purpose is to raise funds for Minnesota Zoological Garden. The Zoo does not appoint any members of the Foundation board.

The Foundation's relationship with the Zoo is such that exclusion of the Foundation's financial statements would cause the Zoo's financial statements to be misleading or incomplete. The Foundation is considered a component unit of the Zoo and their financial statements are discretely presented in the Zoo's financial statements.

In order to observe the limitation and restrictions placed on resources available to Minnesota Zoo Foundation, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and purpose. A description of the groupings is as follows:

Unrestricted Net Assets – Unrestricted net assets include all assets, liabilities, and related revenues and expenses arising from operations of the Foundation, which are not subject to any donor restrictions. These net assets include both board and undesignated amounts. The Board of Trustees has designated \$250,000 at June 30, 2011 and 2010 for general operating reserves.

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of uncollected long-term pledges receivable and unexpended amounts that may be used only after a specified date or only for a specific purpose or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets will be reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets consist of gifts and pledges whose principal balance is required by the donor to remain intact in perpetuity.

The Zoo received \$3,973,044 and \$3,239,420 in grants and distributions from the Foundation in the years ended June 30, 2011 and 2010, respectively. Additionally, the Zoo provided furnished office space to the Foundation. The estimated value of this space was \$19,926 and \$11,624 in the years ended June 30, 2011 and 2010, respectively.

MINNESOTA ZOOLOGICAL GARDEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

16. Component Unit (continued)

The Foundation's investments are carried at fair value. The Foundation held the following investments as of:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Money Market Funds	\$ 33,037	\$ 13,836
Mutual Funds – Bonds	267,043	182,439
Mutual Funds – Equities	425,603	269,582
Beneficial Interest in Perpetual Trust	<u>1,242,930</u>	<u>1,132,636</u>
	<u>\$ 1,968,613</u>	<u>\$ 1,598,493</u>

The Foundation's pledges receivable are recognized in the period the promises are made. Conditional pledges are recognized when the conditions on which they depend are substantially met, that is, when the conditional pledge becomes unconditional. Pledges receivable includes the following unconditional promises to be collected at:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
In One Year or Less	\$ 978,713	\$ 2,048,995
Between One Year and Five Years	772,618	952,508
More Than Five Years	-	1,000
Gross Promises to Give	<u>1,751,331</u>	<u>3,002,503</u>
Less: Allowance for Doubtful Accounts	(87,500)	(154,000)
Less: Discount at 2% – 3%	<u>(37,566)</u>	<u>(50,594)</u>
Net Amount	<u>\$ 1,626,265</u>	<u>\$ 2,797,909</u>

MINNESOTA ZOOLOGICAL GARDEN
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
7/1/10	\$ -	\$ 1,717,000	\$ 1,717,000	0.00%	\$ 11,644,000	14.70%
7/1/08	\$ -	\$ 1,585,000	\$ 1,585,000	0.00%	\$ 10,644,000	14.89%