What's the Story Behind the Numbers?

A Grant Maker's Guide to Understanding Nonprofit Audits

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Part I: THE FINANCIAL STATEMENTS

The **accounting process** is the means by which an organization summarizes transactions with donors, other resource providers, suppliers and employees. The accounting process culminates in the preparation of the **financial statements**. The financial statements are the primary vehicle by which management reports on its stewardship of the organization's assets and its charitable activities. Financial statements tell an organization's story in dollars.

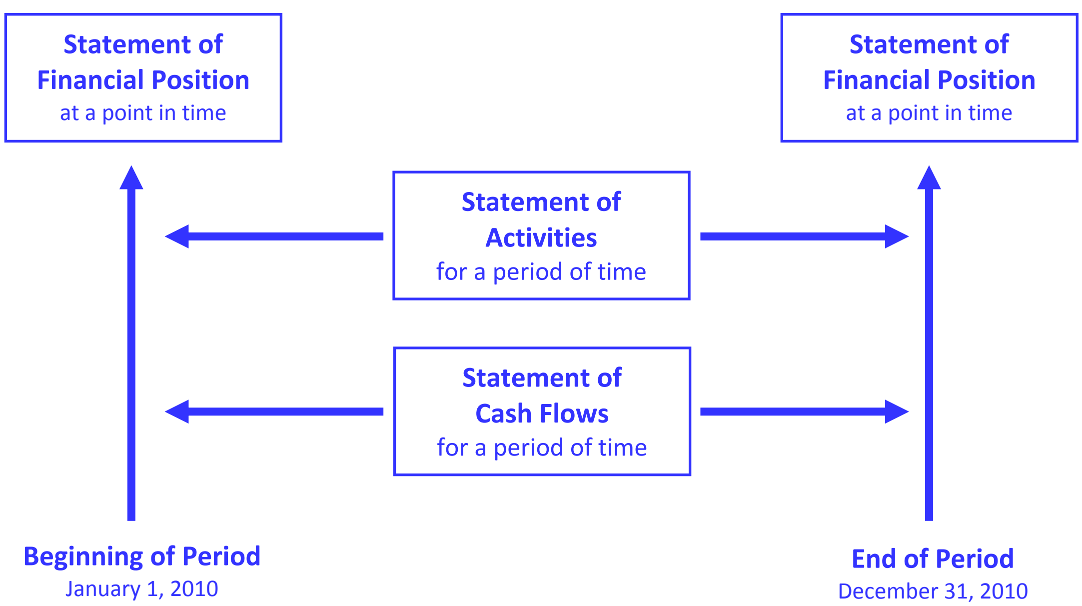
For nonprofit organizations, the balance sheet is called the **statement of financial position**. In the statement of financial position, assets equal liabilities plus equity. Assets are items that provide a future benefit. Liabilities represent future obligations. Equity or net assets is the cumulative earnings of the organization since inception.

Assets = Liabilities + Net Assets

The **statement of activities** represents financial activity for a **period of time** - usually over the nonprofit's fiscal or calendar year. Inflows of the nonprofit's resources are **revenues**; outflows of resources are **expenses.** **Changes in net assets** represent the difference between revenues and expenses.

Change in Net Assets = Inflows of Resources – Outflows of Resources

The **statement of cash flows** represents the inflows and outflows of the nonprofit's cash resources over a **period of time –** again, usually over the nonprofit's fiscal or calendar year.



UNDERSTANDING NONPROFIT FINANCIAL STATEMENTS

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GAAP is the "gold standard" of how financial information is prepared, and is the compilation of many rules and standards. The various rules and pronouncements come from the Financial Accounting Standards Board (FASB), an organization that the accounting profession has created to circulate the rules of GAAP reporting and to amend the rules as needed.

The accounting profession is full of jargon, and it is impossible to understand all the concepts without a great deal of education and training. Nevertheless, there are some key concepts that are important to understand in order to accurately interpret what the financial statements you are reading are saying.

ACCRUAL vs CASH BASIS ACCOUNTING

Most financial statements are prepared on either a **cash-basis** or **accrual basis**. There are others (e.g. tax-basis, modified cash) but accrual and cash are the most common. Organizations may use the cash basis when they are in the start-up phase and convert to the accrual basis when they grow and mature.

The **cash basis of accounting** is pretty intuitive. Revenues or inflows of resources are recorded when the cash comes in the door and deposited in the bank. Expenses, or outflows of resources, are recorded when the check is written or cash leaves the nonprofit's offices.

The **accrual basis of accounting** is GAAP. Here revenues and expenses are reported independently of when cash comes into or leaves the bank account. Rather, revenues are recorded when the *earnings process is complete*. Expenses are recorded when the *obligation is incurred*. The main idea behind the accrual method of accounting is the intention of matching the expenses of an activity with the earnings process or revenues. The cash basis, on the other hand, makes no attempt to match revenues with expenses.

All this makes for strange timing differences. The chart below illustrates when revenue or expense is recorded based on when certain events occur.

Account Class	2010	2011	Year Revenue or Expense is Recorded
Accounts, pledges and grants receivable	Service provided or commitment received from donor	Cash received	2010
Accrued expenses and accounts payable	Service provided by vendor; obligation incurred	Cash paid	2010
Deferred revenue	Cash received	Earnings process completed	2011
Prepaid expenses (deferred expenses)	Cash paid	Obligation incurred	2011

ACCOUNTING ISSUES UNIQUE TO NONPROFIT ORGANIZATIONS

There are also accounting concepts that are unique to nonprofits and that you will NEVER see in a for-profit enterprise. Some nonprofits will have all of these items and others may only have one or two.

- Contributions are recorded when a promise is made by a donor irrespective of when cash is received.
- Gifts of in-kind or specialized services are recorded in the financial statements. So, if a nonprofit receives its legal services pro-bono, it records the revenue for the services for the dollar amount they would have had to pay for it as well as the off-setting expense. This type of transaction is a wash whereby revenues and expenses are increased by off-setting equal amounts.
- Expenses are reported in their functional rather than their natural categories. In other words, expenses in nonprofit financial statements are typically grouped into their functions—program, fundraising and general and administration – and not their natural categories – salaries, benefits, rent, etc.
- Contributions may be restricted for a specific purpose. These contributions are recorded when the donor makes a promise to give, but the nonprofit can only use the funds for a specified purpose. The existence of restricted net assets presents a real challenge to understanding nonprofit financial statements. An organization may have large assets but if they are restricted they may not be able to immediately use those assets. In order to analyze a nonprofit's financial statements, you need to understand what their unrestricted net assets are, and to be aware that the restricted net assets may be available for future use when the nonprofit fulfills the restrictions.

Note that only donors can restrict contributions. Some nonprofits report "board restricted" net assets but, these are not "contractually" restricted, and the Board can easily undo the restrictions, usually with a Board vote.

WHAT DOES AN AUDITOR DO?

Many nonprofit financial statements are audited. An audit is an examination and verification of a financial statement by conducting tests of transactions and accounts. The auditor's job is to form an opinion on an organization's financial statements as a whole.

As a user of audited financial statements, it is important to know what an auditor's opinion says and what it does not say. The only item that is supposed to be prepared by the CPA is this one page report; the responsibility of the preparation of the financial statements rests with management. (The CPA may assist in the preparation of a financial statement, but management is ultimately responsible for the statements.)

This is what the audit report **says**:

- Whether the financial statements are **fairly stated**;
- Indicates that how management arrived at **estimates** presented in the statements and the **accounting principles** followed to prepare the statements.

Contrary to popular belief, it is not the auditor's duty to detect fraud or opine on the integrity of the organization's management. Notice that an audit report presented on the following page says nothing about these issues.

LET'S TAKE A CLOSER LOOK AT A TYPICAL AUDIT REPORT.

Although the auditor may prepare the financial statements, they are the responsibility of management.

Independent Auditors' Report

To the Board of Trustees
Jurassic Park Petting Zoo
Boston, Massachusetts

We have audited the accompanying statements of financial position of Jurassic Park Petting Zoo (a not-for-profit organization) as of June 30, 2010 and 2009 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 the audit 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 Jurassic Park Petting Zoo as of June 30, 2010 and 2009, 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.

Edelstein & Company, LLP

Boston, Massachusetts
December 16, 2010

Materiality has qualitative as well as quantitative characteristics.

Only a sample of transactions is tested.

Notice it says reasonable and not "absolute".

The audit report is dated upon completion of all audit procedures.

TYPES OF OPINIONS

Before digging into the numbers of the financial statements it is important to look at the types of opinions that may be issued by auditors. The opinion shown in the previous page is an **unqualified opinion**—the highest level of assurance.

Unqualified Opinion – Also called a “clean opinion,” this report states that the financial statements are presented fairly in all material aspects, in conformity with GAAP**.**

Qualified Opinion – This report says there is a departure from GAAP. In other words, the auditors encountered a limitation on the scope of the audit, or noted a deviation from GAAP in one or more areas of the financial statements.

Adverse Opinion[1] – This opinion is the opposite of an unqualified opinion and is issued when the financial statements are materially misstated.

Disclaimer of Opinion[1] – The auditor cannot obtain satisfactory audit evidence and therefore is unable to present an opinion on the financial statements.

[1] As you can imagine these opinions are very rare.

FINANCIAL STATEMENT ASSERTIONS

So, how does an auditor determine whether the financial statements are "fairly stated"? Each item found in the financial statements has six characteristics that are evaluated by the auditor to determine that the financial statements are reasonably stated. For most accounts, the ability of the auditor to prove one or two assertions can be adequate to verify the account balance. The assertions are defined as follows:

Existence or Occurrence – Transactions and events that have been recorded have occurred and exist. ***Plain English - The account exists and is not fictitious***.

Rights and Obligations – The entity holds or controls the rights to assets, and liabilities are the obligations of the entity. ***Plain English – The entity has ownership rights over the account.***

Completeness – All transactions and events that occurred have been recorded ***Plain English – The list of transactions is complete and material transactions are not omitted***.

Valuation or Allocation – Amounts and other data relating to recorded transactions and events have been recorded appropriately. ***Plain English – The value of the account is supported by audit evidence.***

Cut-off – Transactions and events have been recorded in the correct accounting period. ***Plain English – The transactions in the account are recorded in the correct year.***

Accuracy or Classification – Transactions and events have been recorded in the proper accounts. ***Plain English – The transactions in the account are recorded correctly.***

FINANCIAL STATEMENT ASSERTIONS (continued)

Let's say an auditor is evaluating a nonprofit's cash account. What the auditor really cares about is that cash *exists* [existence and occurrence] and that the nonprofit *owns* [rights and obligations] the accounts. Therefore, the auditor will focus his work on verifying these two assertions. While the other four assertions should be considered, the former are clearly the most important in regard to cash.

Now let's take accounts payable. The most important issue the auditor wants to consider is whether the accounts payable listing of obligations is complete [completeness] because an incomplete listing means that the account and the related expenses are understated.

You may be asking, "Why is this important to me? Can't I take the financial statement numbers for what they are and not worry about the assertions? After all they were audited." While this is true, understanding the relevant assertions for each item presented in the financial statements can help focus your inquiries of management. Let's say you notice that temporarily restricted net assets declined. Rather than ask the general question about the decrease, you may wish to inquire about what management does to ensure that resources are being properly classified as unrestricted, temporarily or permanently restricted.

The following illustrates the most significant assertion for each class of statement of financial position items.

Assets ⟺ **Existence or Occurrence**

Liabilities ⟺ **Completeness**

Net assets ⟺ **Accuracy or Classification**

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THE STATEMENT OF FINANCIAL POSITION [ASSETS] – AN EXAMPLE

JURASSIC PARK PETTING ZOO

Statements of Financial Position **June 30,**		**2010**		**2009**
Amounts in thousands				
Assets				
Current assets:				
Cash	$	2,919	$	2,490
Accounts receivable		247		167
Pledges receivable, current		3,369		5,342
Inventory		267		250
Prepaid expenses		301		120
Total current assets		7,103		8,369
Pledges receivable		1,449		3,260
Marketable securities		12,727		11,333
Property, plant and equipment		46,500		48,117
Other assets		320		183
Total assets	$	68,099	$	71,262

Cash – consists of highly liquid financial instruments either in its physical form (currency), or through checking and savings accounts, bank notes or other instruments that are highly liquid and have maturities of 3 months or less.

Pledges/Grants Receivable and Unconditional Promises to Give – consist of pledges or promises to give that are recognized when the donor makes a commitment to make a contribution in the future. They may be restricted for a particular purpose. Pledges that extend for a period of more than one year are required to be *discounted.*

Investments (Marketable Securities) – a financial product in which a favorable return is expected. Nonprofits that have large investment portfolios rarely limit their holdings to stocks and bonds. **Alternative investment**s[2] have gained popularity as nonprofits seek to improve returns and reduce volatility in their portfolios. By their nature, most alternative investments, like hedge funds, private equity funds, and real estate investment trusts, are not publicly traded. Unlike stocks and bonds, most alternative investments are available to a limited number of investors because the minimum entrance amounts needed to invest in these funds are so high.

Nonprofit endowments may consist of wide variety of investment vehicles. There may be time restrictions as to when and how the earnings on the investments may be used. The chart below illustrates how income and realized and unrealized gains and losses are classified.

Gift	Interest and dividends	Realized gains (losses)	Unrealized gains (losses)
Temporarily restricted	Temporarily restricted	Temporarily restricted	Temporarily restricted
Endowment - donor silent	Unrestricted	Temporarily restricted	Temporarily restricted
Endowment - donor restricted income	Temporarily OR permenantly restricted	Temporarily OR permenantly restricted	Temporarily OR permenantly restricted

Inventory – reported at lower of cost or net realizable value

Property and equipment – also known as ***fixed assets,*** property and equipment is always reported at cost less accumulated depreciation. There may be a large chasm between the value reported in the financial statements and its fair value. In any case, the book value should never be more than fair value.

[2] Standards implemented in recent years provide guidance on disclosures to describe how investments are priced. The disclosure ranks the quality and quantity of the information used to determine price – Level 1 is the most clearly evident and Level 3 the least. Due to the nature of alternative investments, the auditor may be unable to gain sufficient audit evidence to support the valuation assertion of these types of investments. In recent years we have seen an increase in qualified audit opinions because the auditor could not gain sufficient audit evidence to support the value of the investments reported in the financial statements.

Commentary: Problems can arise when the market-based measurement does not accurately reflect the underlying asset's true value. This can occur when a company is forced to calculate the selling price of these assets or liabilities during unfavorable or volatile times, such as a financial crisis.

THE STATEMENT OF FINANCIAL POSITION [LIABILITIES AND NET ASSETS] – AN EXAMPLE

	2010	2009
Amounts in thousands		
Liabilities and net assets		
Current liabilities:		
Bond payable, current portion	$ 2,230	$ 2,065
Accounts payable	520	807
Accrued expenses	686	582
Deferred revenue	25	32
Total current liabilities	3,461	3,486
Derivative financial instruments	841	703
Notes payable	221	215
Bonds payable	19,270	21,500
Total long-term liabilities	20,332	22,418
Net assets:		
Unrestricted	31,621	30,402
Temporarily restricted	8,618	10,931
Permanently restricted	4,067	4,025
Total net assets	44,306	45,358
Total liabilities and net assets	$ 68,099	$ 71,262

Accounts payable – current obligations, *usually invoiced purchases*, for items or services used in operations.

Accrued expenses – current obligations, typically *not invoiced*. The account balance may include estimates prepared by management.

Notes payable – an agreed upon sum of money often loaned from a bank or another company with specific terms for the interest rate and the form of repayment.

Bonds payable – a loan from a government agency, usually at low rate of interest. Nonprofits use bonds to help finance major capital improvements. Interest earned from the bonds is exempt from taxation to the investors who purchase the bonds.

Derivative financial instruments – in the case of the Zoo, the derivative financial instrument represents the fair value of the interest rate swap. The Zoo entered into a swap to exchange their variable rate interest bond obligation with a fixed rate. Since interest rates have dropped in recent years, the Zoo is expecting to pay out more than it takes in from the swap—hence, a liability is reflected in the financial statements.

Unrestricted net assets – net assets available for the organization's general operations.

Restricted net assets – two types:

1. Temporarily restricted – net assets that have been restricted by time or designated for a specific purpose.
2. Permanently restricted – represents assets that cannot be expended. Income from these invested endowments is utilized in accordance with the donors' stipulations.

Endowments – A nonprofit has fairly wide discretion about how it invests endowment funds. Most states have adopted the Uniform Management of Institutional Funds Act (UPMIFA), which provides guidance about how endowment funds should be invested, and how much of the endowment assets a nonprofit can spend and for what purpose. The financial statement disclosures will describe the spending policy and whether the body of the endowment (e.g. its *corpus*) has declined below the value of the original gift (a very common event after the collapse of the financial markets in 2008). Large nonprofits typically have large endowments and it is important that they are properly managed and overseen. Questions you may ask:

- What is the investment policy/strategy and how does management ensure that it is being followed?
- What steps are taken to ensure that the portfolio's risk is being monitored? ***(Plain English - What steps are taken to avoid risky or "too good to be true" investments and has a competent investment manager been engaged?)***
- Is there an investment committee and what is its level of expertise/knowledge?

THE STATEMENT OF ACTIVITIES – AN EXAMPLE

JURASSIC PARK PETTING ZOO

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

Amounts in thousands

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently restricted	Total	Unrestricted	Temporarily Restricted	Permanently restricted	Total
Revenues and support								
Admissions	$ 2,172	$ -	$ -	$ 2,172	$ 2,066	$ -	$ -	$ 2,066
Contributions	1,336	598	42	1,976	2,365	2,317	1,039	5,721
Memberships	1,012	-	-	1,012	943	-	-	943
Fees	226	-	-	226	245	-	-	245
Park store, net	130	-	-	130	115	-	-	115
Special events, net	205	-	-	205	302	-	-	302
In-kind contributions	105	-	-	105	29	-	-	29
Rental income	1,763	-	-	1,763	1,660	-	-	1,660
Investment income (losses)	770	1,117	-	1,887	(968)	(986)		(1,954)
Unrealized loss on derivative instruments	(137)	-	-	(137)	(337)	-	-	(337)
Net assets released from restrictions	4,028	(4,028)	-	-	9,528	(9,528)	-	-
Total revenues and support	11,610	(2,313)	42	9,339	15,948	(8,197)	1,039	8,790
Expenses:								
Program services:								
Education	2,912	-	-	2,912	3,166	-	-	3,166
Visitor services	1,777	-	-	1,777	1,675	-	-	1,675
Exhibits	2,079	-	-	2,079	2,211	-	-	2,211
Memberships	261	-	-	261	248	-	-	248
Auxulliary services	1,597	-	-	1,597	1,602	-	-	1,602
Supporting services								
Management and general	1,487	-	-	1,487	1,860	-	-	1,860
Fundraising	278	-	-	278	440	-	-	440
Total expenses	10,391	-	-	10,391	11,202	-	-	11,202
Change in net assets	1,219	(2,313)	42	(1,052)	4,746	(8,197)	1,039	(2,412)
Net assets, beginning of year	30,402	10,931	4,025	45,358	25,656	19,128	2,986	47,770
Net assets, end of year	$ 31,621	$ 8,618	$ 4,067	$ 44,306	$ 30,402	$ 10,931	$ 4,025	$ 45,358

SUPPORT AND REVENUE

A nonprofit organization may have numerous ways to generate revenue, including earned income and contributions. When reviewing a nonprofit's financial statements is it crucial to examine the *statement of activities* to gain an understanding of the revenue mix and their funding model. Possible sources of income for the organization include individual donors, corporate donors, admission fees, membership fees, special events revenue, in-kind contributions, etc.

In general, the broader the revenue base the less susceptible the organization is to economic volatility. On the other hand, if a nonprofit generates revenues from a wide range of sources, it is likely that they must devote more resources to maintain these revenue generating activities than an organization that receives its funding from one or two major sources.

Consider reviewing the footnote disclosures in order to understand how the nonprofit recognizes its revenues.

EXPENSES

As mentioned in previous pages, GAAP requires nonprofits to report their expenses into their **functional categories** – program and supporting activities. Unless a nonprofit chooses to provide a statement of functional expenses,[3] it may take some work to understand the components of the program and supporting activities reported in the financial statements. The statement of functional expenses as reported on the organization's Form 990 should have this detail.

GAAP allows nonprofits to allocate overhead costs to their programs. The methodology to be used is not specified in the accounting standards, and generally, any reasonable method is allowed. Salaries and related expenses are usually allocated using an estimate of staff time devoted to each function. Occupancy-related expenses are typically allocated based on square footage.

All nonprofits need to have general and administrative and fundraising expenses to survive. While having a very high percentage of expenses devoted to its programs is desirable, general and administrative expenses that are too low may indicate that the nonprofit is not devoting enough resources to its management functions.

[3] Nonprofits that are considered voluntary health and welfare (VHWO) organizations are required to report a statement of functional expenses. A VHWO is defined as "A nonprofit organization whose primary source of revenue is contributions from donors who do not themselves directly benefit from the organization's programs. Also, the organization's programs are in the area of health, welfare, or community service, such as care for the elderly, the indigent, or the handicapped, or projects to protect the environment."

THE STATEMENT OF CASH FLOWS – AN EXAMPLE

JURASSIC PARK PETTING ZOO

Statements of Cash Flows

For the Years Ended June 30,	**2010**	**2009**
Amounts in thousands		
Cash flows provided by operating activities:		
Change in net assets	$ (1,052)	$ (2,412)
Adjustments to reconcile change in net assts		
to net cash provided by operating activities:		
Allowance for uncollectible pledges	8	(197)
Depreciation and amortization	2,745	2,939
Realized investment gains	(92)	(259)
Unrealized investment (gains) losses	(1,341)	2,489
Unrealized loss on derivative instruments	137	337
Contributions restricted for capital campaign	(2,537)	(4,220)
Changes in operating assets and liabilities		
Accounts receivable	(80)	75
Pledges receivable	3,776	4,244
Inventory	(17)	11
Prepaid expenses	(181)	3
Other assets	(137)	(50)
Accounts payable	(287)	(426)
Accrued expenses	104	72
Deferred revenue	(7)	(5)
Net cash provided by operating activities	1,039	2,601
Cash flows used in investing activities:		
Proceeds from sale of marketable securities	545	524
Purchase of marketable securities	(499)	(1,311)
Purchase of property and equipment	(1,128)	(2,618)
Net cash used in investing activities	(1,082)	(3,405)
Cash flows provided by (used in) financing activities:		
Payment of line of credit	-	(950)
Contributions restricted for capital campaign	2,537	4,220
Repayment of bonds payable	(2,065)	(6,000)
Net cash provided by (used in) financing activities	472	(2,730)
Increase (decrease) in cash	429	(3,534)
Cash, beginning of year	2,490	6,024
Cash, end of year	$ 2,919	$ 2,490
Supplemental financial information:		
Cash paid during the year for interest	$ 465	$ 824

The statement begins with the profit or loss reported in the statement of activites.

Non cash items presented in the statement of activities are omitted.

Capital campaign contributions are removed.

The difference between asset/liability items are presented.

Note: Cash is being used to fund capital projects.

Note: The capital campaign helped to fund pay-down of bonds in 2010.

The statement of cash flows is often ignored because it is not understood. The statement of cash flows can provide useful information about how the nonprofit generates cash. GAAP provides for two methods for reporting cash flows – the indirect and the direct method. Most organizations report their statement of cash flows using the indirect method, as does the Zoo.

The statement of cash flows presents three activities:

Cash flows from operations – presents cash flows from operations and eliminates noncash transactions presented in the statement of activities. Contributions for capital improvements or endowment are also subtracted from operating results.

Cash flows from investing activities – reports inflows or outflows of investments and property and equipment.

Cash flows from financing activities – shows cash receipts from or payments of long term debt. Contributions for capital improvements or endowment are considered financing activities, so cash flows from these sources are included in this section of the statement.

Plain English - Why you shouldn't ignore the statement of cash flows. A nonprofit's change in net assets (profit) may be manipulated by accruals, deferrals and estimates. The statement of cash flows removes these noncash items to give a very precise accounting of how much cash is generated by an organization's activities. A review of cash flows from *operations* trending upward may foretell financial strength while downward movement may foreshadow financial difficulties.

This statement also summarizes what the organization is *investing* into or out of. In the *financing* section you can see how long-term debt is being managed. For instance, you may be able to tell whether the nonprofit is purchasing property and plant, or selling investments to make up for operating shortfalls. You may also see if debt is being paid off or if the organization is going deeper into debt to improve cash deficits.

Part II: MAKING SENSE OF THE NUMBERS

THE FOOTNOTES

The footnote disclosures cannot be ignored in a financial statement analysis. In fact, each page of the "numbers" pages of the financial statements says "the footnotes are an integral part of the financial statements". At the same time, the audit report indicates that the auditors evaluated the footnote disclosures. While there is a great deal of accounting jargon in the footnotes, there are also valuable tidbits of information that can enhance your analysis. In spite of the notes being laden with accountant's speak, they should be clear and meaningful. Therefore, if something in the notes is unclear, you should ask for clarification.

The footnotes consist of two major sections—1) accounting policies, and 2) disclosures required by GAAP. The footnotes provide additional details about the numbers reported in the financial statements and may also contain information about the following:

Contingencies

An existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occurs or fails to occur. ***Plain English – The disclosure of a contingency makes the reader of the financial statements aware that a future loss (or gain) might occur if an event transpires in the future.*** An example: A lawsuit was filed against a nonprofit but the outcome of the litigation will not be known until the following year or years.

Gain contingencies are never recognized in the financial statements but should be disclosed in the notes to the financial statements under some circumstances. *Loss contingencies* may be recorded in the financial statements if the loss is probable and can be reasonably estimated.

Subsequent Events

A material happening occurring after the date of the financial statements but before the audit report is issued or available to be issued. ***Plain English – An event of significance occurred after the end of the year that needs to be disclosed to prevent the financial statements from being misleading.*** There are two types of subsequent events:

Type 1. An event or transaction that provides additional evidence about a condition that *existed at the date* of the statement of financial position. For example, let's say a nonprofit records an accrual for legal fees for services rendered before the end of the year, and the invoices enumerating the fees arrive sometime after year end. Since the condition (legal services provided) occurred before the end of the year, the accrual should be adjusted to reflect the actual amounts reported in the invoices.

Type 2. An event or transaction about conditions that *did not exist at the date* of the statement of financial position. Common Type 2 events include the execution of a new line of credit agreement, and extension of an office lease or the execution of a lease for new office space.

THE ANALYSIS

What follows are tools you can used to evaluate the financial statements. The presence of restricted net assets and the fact that most nonprofits have multiple sources of revenues, makes analyzing a nonprofit's financial statements far more complicated than analyzing a for-profit entity. Focusing your analysis of unrestricted net assets allows you to better understand operating resources. However, GAAP provides for a wide range of acceptable ways for a nonprofit to present its statements; therefore, it is not always possible to separate unrestricted and restricted components of the financial statements.

Tool 1. Ratios

Using financial statement ratios can help you get a sense of the big picture issues. From there you can focus your analysis and gain a more detailed understanding of the numbers. To the extent possible, it is useful to track the ratios through time to identify trends.

Liquidity Ratios

Liquidity is the ability to convert assets to cash, and the nonprofit's ability to meet its financial obligations. Since most nonprofits have both restricted and unrestricted net assets, if possible, calculate these ratios for both categories of net assets.

The **current ratio** is the most common:

Current ratio = Current assets/current liabilities		
	2010	**2009**
Current assets (total)	7,103	8,369
Current liabilities (total)	3,461	3,486
	2.05	2.40

Plain English Analysis:

Because the Zoo's statement of financial position shows unrestricted and restricted net assets combined it is difficult to determine what assets (and liabilities) are unrestricted and available for immediate use.

A general rule of thumb: the unrestricted current ratio is less than the current ratio calculated using unrestricted and restricted assets. Bottom line: the Zoo's cushion to meet its liabilities declined in 2010.

The **quick ratio** is a more stringent test and eliminates items like inventory and prepaid expenses from the numerator.

Quick ratio = [Cash + accounts/pledges receivable]/current liabilities		
	2010	**2009**
Cash + receivables (total)	6,535	7,999
Current liabilities (total)	3,461	3,486
	1.89	2.29

Plain English Analysis:

Marketable securities are omitted because the Zoo classifies its investments as **noncurrent.**

The ratio is solid but the decline from 2010 may indicate liquidity problems.

Days cash on hand calculates the number of days or months an organization has cash if operations ceased as of that date.

Days cash on hand = Cash/[(Expenses less noncash items)/ 365]		
	2010	**2009**
Cash	2,919	2,490
Expenses	10,391	11,202
Less: depreciation & amortization	2,745	2,939
	7,646	8,263
Divided by days per year	365	365
Expenses per day	21	23
Cash / expenses per day	139	108
Months of cash (divide above by 30)	5	4

Plain English Analysis:

While this is a solid result, it is important to note that some of the Zoo's cash may be temporarily restricted and not available for immediate use. This presents an opportunity to ask a question.

Efficiency Ratios

Efficiency ratios indicate how well a nonprofit is utilizing its resources.

Use caution when interpreting efficiency ratios. If possible, try to compare the nonprofit you are analyzing with a nonprofit that has similar activities. For instance, if you are trying to analyze a museum, you should not compare your results with a human service provider.

Program efficiency ratio is the term used to determine the percentage of an organization's expenses that are devoted to its programs.

Program efficiency ratio = Program expenses/total expenses		
	2010	**2009**
Program expenses	8,626	8,902
Total expenses	10,391	11,202
	0.83	0.79

Plain English Analysis:

The improvement from .79 - .83 is significant, but has the Zoo become more efficient or have they changed the way they are allocating overhead expenses?

The **fundraising efficiency ratio** indicates how efficiently a nonprofit uses its fundraising resources.

Fundraising efficiency ratio = fundraising expenses/total expenses		
	2010	**2009**
Contributions*/grants	1,976	5,721
Fundraising expenses	278	440
	7.11	13.00

*Includes contributions, but not special events

Plain English Analysis:

While the ratio is strong, the decline from 13.00 presents an opportunity to ask why.

For a nonprofit whose sales from inventory comprise a significant source of revenues, it may be useful to calculate **inventory turnover**. The inventory turnover ratio illustrates how well a company manages its inventory levels. A low turnover suggests the nonprofit is having difficulties selling its inventory. In general, the higher inventory turnover the better.

Inventory turnover = cost of sales/inventory		
	2010	**2009**
Cost of sales**	1,201	1,307
Inventory	267	250
	4.50	5.23

**Although we cannot precisely determine this number from the Zoo's financial statements, for the purposes of illustration, let's assume that cost of sales is a component of auxiliary services and is $1,201 for 2010 and $1,370 for 2009.

Plain English Analysis:

Inventory at the Zoo's store is turning over between 4 and 5 times a year. The decline in the turnover may be an indication that items are staying on the shelves too long (i.e. customers may not be as interested in the products being sold at the store).

The **receivables turnover ratio** is indicative of whether the nonprofit's receivables are going to be collected. Pledges are usually turned over slowly, so this ratio is not as useful for a nonprofit as it is for a for-profit.

Pledges receivables turnover = contributions/pledges receivable		
	2010	**2009**
Contributions	1,976	5,721
Pledges receivable	4,818	8,602
	0.41	0.67

Plain English Analysis:

The results of this ratio appear unusually low - we would normally expect a number of 1-2. However, there are some good things happening: The collections on the pledges generated $3.8M of cash in 2010 ($8,602 - $4,818 = $3,784). There was a capital campaign in 2008, the pledges from which are being paid off over time.

Leverage Ratios

Leverage ratios indicate how much debt a nonprofit is carrying.

The **debt/equity ratio** measures how much of the nonprofit is financed (or leveraged).

Debt to equity = Long-term + short term debt (accounts payable/accrued expenses)/ net assets		
	2010	**2009**
Debt	22,927	25,169
Net assets	44,306	45,358
	0.52	0.55

***Derivative liability and deferred revenue are excluded from the calculation.

Plain English Analysis:

The Zoo is carrying a great deal of debt - bond proceeds were used to finance renovations [see the footnotes]. This fairly heavy debt burden means that the Zoo will need cash to make interest and principle payments on this debt for a long time.

Tool 2. Express the Statement of Financial Position as a Percentage of Assets

	2010	2009
Assets		
Cash	4.29%	3.49%
Accounts receivable	0.36%	0.23%
Pledges receivable, current	4.95%	7.50%
Inventory	0.39%	0.35%
Prepaid expenses	0.44%	0.17%
Pledges receivable, noncurrent	2.13%	4.57%
Marketable securities	18.69%	15.90%
Property, plant and equipment	68.28%	67.52%
Other assets	0.47%	0.26%
Liabilities		
Bond payable, current portion	3.27%	2.90%
Accounts payable	0.76%	1.13%
Accrued expenses	1.01%	0.82%
Deferred revenue	0.04%	0.04%
Derivative financial instruments	1.23%	0.99%
Notes payable	0.32%	0.30%
Bonds payable, noncurrent	28.30%	30.17%
Net assets:		
Unrestricted	46.43%	42.66%
Temporarily restricted	12.66%	15.34%
Permanently restricted	5.97%	5.65%

Analysis

Breaking out the statement of financial position this way highlights its most significant components. Here's what we learn:

- As we would expect, the Zoo's assets consist primarily of its property and marketable securities, which make up about 85% of its assets.
- The property and equipment is financed by its debt.
- Unrestricted net assess are large; the property and equipment makes up a large component of unrestricted net assets.

Conclusion

The assets are not very liquid. If we look at footnote 4 on page 10 of the Zoo's financial statements we see that most of the investments are tied up in the endowment.

Tool 3. Common Size the Statement of Activities

Common sizing or converting the accounts as percentages is a useful way of analyzing the statement of activities. We prefer to evaluate revenue items as a percentage of total revenues, and expense items as a percentage of total expenses.

	2010	2009
Revenues and support		
Admissions	0.23	0.24
Contributions	0.21	0.65
Memberships	0.11	0.11
Fees	0.02	0.03
Park store, net	0.01	0.01
Special events, net	0.02	0.03
In-kind contributions	0.01	-
Rental income	0.19	0.19
Investment income	0.20	(0.22)
Unrealized loss on derivative financial statements	(0.01)	(0.04)
Net assets released from restrictions		
Total revenues and support	1.00	1.00
Expenses		
Program services		
Education	0.28	0.28
Visitor services	0.17	0.15
Exhibits	0.20	0.20
Memberships	0.03	0.02
Auxulliary services	0.15	0.14
Supporting services		
Management and general	0.14	0.17
Fundraising	0.03	0.04
Total expenses	1.00	1.00

Analysis

- Contributions declined significantly.
- The prior year investment loss swung back to a positive due to market recovery.
- Program expenses did not change significantly as a percentage of total expenses.
- Management and general declined by 3%.

Part III: GLOSSARY

Accrual Basis of Accounting
Revenues are recognized when the **earnings process is complete** and expenses are recognized when the **obligation is incurred**.

Alternative Investments
A security or securities that are not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of their complex nature, they have limited regulations and relatively lack liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts.

Cash Basis of Accounting
Revenues are recognized when cash is **received** and expenses are recognized when cash is **disbursed**.

Conservatism Principle
If a situation arises where there are two acceptable alternatives for reporting a transaction, conservatism directs the accountant to choose the alternative that will result in less net income and/or less asset amount.

Cost
Cost is the amount spent when an item was originally obtained, whether that purchase happened last year or many years ago. For this reason, most amounts shown on financial statements are referred to as historical cost amounts. Cost is considered more reliable than fair value.

Derivatives
A contract between two parties that specifies conditions under which payments, or payoffs, are to be made between the parties. Typically, derivatives are used to "hedge" or take a bet that an event will or will not occur. Examples include interest rate swaps, foreign currency hedges, etc.

Endowment
An endowment is a gift of money or other income-producing property for a specific purpose. Generally, the asset is kept intact and only income generated is consumed. The enactment of the UPMIFA (the Uniform Prudent Management of Institutional Funds Act) does allow, under certain circumstances, for a nonprofit to tap into the assets of the underlying gift during down markets.

Fair Value
Fair value is a market price that both the buyer and the seller, neither under duress, will accept for the good or service they're transacting. Fair value is the price at which supply and demand meet. Fair value not only assumes that neither the buyer nor the seller are in any way forced to make the transaction; fair value also assumes that both the buyer and the seller have reasonable knowledge of relevant facts. Fair value reflects the price at which a seller is willing to part with his item in exchange for money and a buyer is willing to part with her money in exchange for the item. Fair value does not necessarily reflect an item's intrinsic worth (e.g. the value of the materials used to make the item). An item's fair value is based on a comparable market analysis (in other words, an item's fair value is determined by the price at which similar items recently sold). Fair value is more *relevant* than historic cost.

Commentary: In recent years, mostly to address the concerns posed by instruments that financial institutions have on their books, accounting standards have been obsessed with the concept of fair value. The problem is that while recording financial statement items at cost is reliable and conservative, it isn't necessarily relevant. The most common accounts reported at fair value are investments.

Full Disclosure	Information is important to a user of the financial statements should be disclosed.
Generally Accepted Accounting Principles (GAAP)	Refer to the standard framework of guidelines for financial accounting used in any given jurisdiction/country.
Going Concern	Going concern assumes that an entity will continue to exist long enough to carry out its objectives and commitments and will not liquidate in the foreseeable future.
Liquidity	Liquidity is the ability to convert an asset to cash. For many large nonprofits, a significant amount of assets are held in investment vehicles. Many of the investments are not available for immediate use in an emergency either because the investments are "locked up" in the endowment, or the nature of the assets prevents them from being readily converted to cash. For instance, many hedge funds or other alternative investments restrict the timing of when you can enter and exit a particular fund.
Materiality	Materiality is probably one of the most misunderstood concepts in accounting. This is because everyone's idea of materiality is different. For example, $1,000 might be a lot of money to an individual, but it's just a "drop in the bucket" to General Motors. Here's the formal definition of materiality: *Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.* In many ways materiality is not just a number, it is a concept. Auditors use their professional judgment to determine whether an omission, error, or even a fraudulent transaction would influence the user of the financial statement. Users could be banks, donors, board members and other constituents.
Matching Principle	Matching requires that expenses be matched with the associated revenues.
Monetary Unit	Economic activity is measured in dollars, and only transactions that can be expressed in dollars are recorded
Net Book Value	By its nature accounting is conservative. Therefore, accountants would rather have the numbers in the financial statements understated than overstated. Most items in the financial statement are reported at their historical cost, or what the organization paid for the item. Items reported at cost are property, equipment and inventory. In general, except for amounts reported at fair value, amounts reported at cost may be marked down but never marked up. GAAP requires that certain items be depreciated or amortized over their useful lives. (Depreciation and amortization are non cash items that are estimates.)
Net Realizable Value	Net realizable value can be described as the future net revenues of the sale of an asset less the total costs incurred from selling the asset. GAAP also requires that certain items like receivables and inventory be reported at their net realizable value. Therefore, other estimates, like allowances and reserves are recorded to mark down these accounts to their net realizable value. Examples are: allowance for doubtful accounts, inventory obsolescence.

Split Interest Agreements

A split interest agreement is an agreement with a donor, usually in the form of a trust, in which the nonprofit receives benefits that are shared with the beneficiaries. Hence, the benefits derived from the trust are split between two parties. Below are the AICPA's definitions for the split interest type trusts that are commonly seen on nonprofit organizations' financial statements.

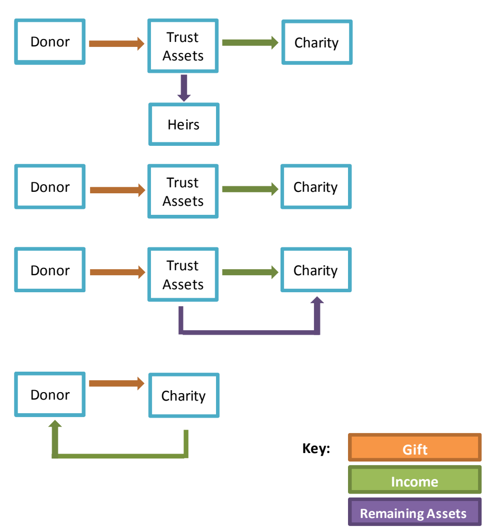
Charitable Lead Trust – a trust established in connection with a split-interest agreement, in which the non-for-profit organization receives specified distributions during the agreement's term. Upon termination of the trust, the remainder of the trust assets is paid to the donor or to third-party beneficiaries designated by the donor.

Perpetual Trust – an arrangement in which a donor establishes and funds a perpetual trust. Under the terms of the arrangement the nonprofit has the irrevocable right to receive the income earned on the trust assets but never receives the assets held in the trust. Distributions received by the organization may be restricted by the donor.

Charitable Remainder Trust – a trust established in connection with a split-interest agreement, in which the nonprofit organization receives distributions during the agreement's term. Upon termination of the trust, a nonprofit organization receives the assets remaining in the trust.

Charitable Gift Annuity – a transfer of assets to a nonprofit organization in connection with a split-interest agreement that is in part a contribution and in part an exchange transaction. The organization accepts the contribution and is obligated to make periodic stipulated payments to the donor or a third-party beneficiary for a specified period of time, usually either a specified number of years or until the death of the donor or third-party beneficiary.

INSTRUMENT	EVENT
Charitable Lead Trust	1) Donor makes gift to CLT
	2) Trust termintation
Perpetual Trust	1) Donor makes gift to trust
Charitable Remainder Trust	1) Donor establishes CRT
	2) Trust termintation
Charitable Annuity Gift	1) Donor establishes annuity



Part IV: THE ZOO's FINANCIAL STATEMENTS AND FOOTNOTES

JURASSIC PARK PETTING ZOO

Financial Statements

June 30, 2010 and 2009

Contents

ACCOUNTING FIRM LETTERHEAD

Independent Auditors' Report

To the Board of Trustees
Jurassic Park Petting Zoo
Boston, Massachusetts

We have audited the accompanying statements of financial position of Jurassic Park Petting Zoo (a not-for-profit organization) as of June 30, 2010 and 2009 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 the audit 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 Jurassic Park Petting Zoo as of June 30, 2010 and 2009, 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.

Edelstein & Company, LLP

Boston, Massachusetts
December 16, 2010

JURASSIC PARK PETTING ZOO

Statements of Financial Position

June 30,		2010		2009
Amounts in thousands				
Assets				
Current assets:				
Cash	$	2,919	$	2,490
Accounts receivable		247		167
Pledges receivable, current		3,369		5,342
Inventory		267		250
Prepaid expenses		301		120
Total current assets		7,103		8,369
Pledges receivable		1,449		3,260
Marketable securities		12,727		11,333
Property, plant and equipment		46,500		48,117
Other assets		320		183
Total assets	$	68,099	$	71,262

The accompanying notes are an integral part of these financial statements

Amounts in thousands	2010	2009
Liabilities and net assets		
Current liabilities:		
Bond payable, current portion	$ 2,230	$ 2,065
Accounts payable	520	807
Accrued expenses	686	582
Deferred revenue	25	32
Total current liabilities	3,461	3,486
Derivative financial instruments	841	703
Notes payable	221	215
Bonds payable	19,270	21,500
Total long-term liabilities	20,332	22,418
Net assets:		
Unrestricted	31,621	30,402
Temporarily restricted	8,618	10,931
Permanently restricted	4,067	4,025
Total net assets	44,306	45,358
Total liabilities and net assets	$ 68,099	$ 71,262

JURASSIC PARK PETTING ZOO

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

Amounts in thousands

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently restricted	Total	Unrestricted	Temporarily Restricted	Permanently restricted	Total
Revenues and support								
Admissions	$ 2,172	$ -	$ -	$ 2,172	$ 2,066	$ -	$ -	$ 2,066
Contributions	1,336	598	42	1,976	2,365	2,317	1,039	5,721
Memberships	1,012	-	-	1,012	943	-	-	943
Fees	226	-	-	226	245	-	-	245
Park store, net	130	-	-	130	115	-	-	115
Special events, net	205	-	-	205	302	-	-	302
In-kind contributions	105	-	-	105	29	-	-	29
Rental income	1,763	-	-	1,763	1,660	-	-	1,660
Investment income (losses)	770	1,117	-	1,887	(968)	(986)		(1,954)
Unrealized loss on derivative instruments	(137)	-	-	(137)	(337)	-	-	(337)
Net assets released from restrictions	4,028	(4,028)	-	-	9,528	(9,528)	-	-
Total revenues and support	11,610	(2,313)	42	9,339	15,948	(8,197)	1,039	8,790
Expenses:								
Program services:								
Education	2,912	-	-	2,912	3,166	-	-	3,166
Visitor services	1,777	-	-	1,777	1,675	-	-	1,675
Exhibits	2,079	-	-	2,079	2,211	-	-	2,211
Memberships	261	-	-	261	248	-	-	248
Auxulliary services	1,597	-	-	1,597	1,602	-	-	1,602
Supporting services								
Management and general	1,487	-	-	1,487	1,860	-	-	1,860
Fundraising	278	-	-	278	440	-	-	440
Total expenses	10,391	-	-	10,391	11,202	-	-	11,202
Change in net assets	1,219	(2,313)	42	(1,052)	4,746	(8,197)	1,039	(2,412)
Net assets, beginning of year	30,402	10,931	4,025	45,358	25,656	19,128	2,986	47,770
Net assets, end of year	$ 31,621	$ 8,618	$ 4,067	$ 44,306	$ 30,402	$ 10,931	$ 4,025	$ 45,358

JURASSIC PARK PETTING ZOO

Statements of Cash Flows

For the Years Ended June 30,	2010	2009
Amounts in thousands		
Cash flows provided by operating activities:		
Change in net assets	$ (1,052)	$ (2,412)
Adjustments to reconcile change in net assts		
to net cash provided by operating activities:		
Allowance for uncollectible pledges	8	(197)
Depreciation and amortization	2,745	2,939
Realized investment gains	(92)	(259)
Unrealized investment (gains) losses	(1,341)	2,489
Unrealized loss on derivative instruments	137	337
Contributions restricted for capital campaign	(2,537)	(4,220)
Changes in operating assets and liabilities		
Accounts receivable	(80)	75
Pledges receivable	3,776	4,244
Inventory	(17)	11
Prepaid expenses	(181)	3
Other assets	(137)	(50)
Accounts payable	(287)	(426)
Accrued expenses	104	72
Deferred revenue	(7)	(5)
Net cash provided by operating activities	1,039	2,601
Cash flows used in investing activities:		
Proceeds from sale of marketable securities	545	524
Purchase of marketable securities	(499)	(1,311)
Purchase of property and equipment	(1,128)	(2,618)
Net cash used in investing activities	(1,082)	(3,405)
Cash flows provided by (used in) financing activities:		
Payment of line of credit	-	(950)
Contributions restricted for capital campaign	2,537	4,220
Repayment of bonds payable	(2,065)	(6,000)
Net cash provided by (used in) financing activities	472	(2,730)
Increase (decrease) in cash	429	(3,534)
Cash, beginning of year	2,490	6,024
Cash, end of year	$ 2,919	$ 2,490
Supplemental financial information:		
Cash paid during the year for interest	$ 465	$ 824

The accompanying notes are an integral part of these financial statements

1. Organization Purpose

Jurassic Park Petting Zoo (the "Zoo") is a charitable Massachusetts corporation. The Zoo's principal objectives are to enhance the education of the children and families of Boston and vicinity, and to promote their appreciation and interest in dinosaurs, nature, and the sciences. For that purpose, the Zoo offers educational exhibits and programs to families, children and other educators.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Zoo, the Zoo determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

The net assets of the Zoo are reported in three categories as follows:

(1) Unrestricted net assets represent funds whose use is not restricted by donors and the resources from which are available for support of the Zoo's general operations.

(2) Temporarily restricted net assets represent resources restricted by donors for a specific period or purpose.

(3) Permanently restricted net assets represent the principal portion of endowment funds which cannot be expended. Income from endowment funds is utilized in accordance with the donors' stipulations.

Fair Value Measurements

The Zoo values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Zoo utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Revenues, Gains and Other Support

Contributions and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the purpose restriction or expiration of the time restriction.

The Zoo receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of marketable securities and other tangible assets, such as property, equipment and inventory, are recognized at fair value when received.

Additionally, the Zoo receives contributed time by volunteers which does not meet the criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Rental revenue is recorded as income on a straight-line basis over the lease term.

Fees earned for education programs are recognized when the programs are conducted. Fees collected in advance of the program are reported as deferred revenue.

The Zoo records interest and dividends on its marketable securities when earned. Gains or losses are recorded when realized. Unrealized gains or losses are recorded based upon changes in the fair value of securities held.

2. Summary of Significant Accounting Policies (continued)

Cash

Cash consists of checking and savings accounts at banks.

The Zoo occasionally maintains deposits in excess of federally insured limits. The risk is managed by the banks' participation in the FDIC's Transaction Account Guarantee Program, which provides full deposit insurance coverage and has been extended through December 31, 2010.

Property, Exhibits and Equipment

Expenditures for property and equipment are stated at cost. The Zoo capitalizes the costs of constructing exhibits. Depreciation is recorded to allocate the cost of these assets over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Equipment	Five to ten years
Exhibits/Dinosaur pods	Three to ten years
Capital improvements and major renovations	Twenty to thirty years
Building	Thirty years

Management periodically evaluates its property and equipment assets for indications that the value has been impaired. Based on this assessment, management believes that impairment in value has not occurred.

Inventory

The Organization's inventory consists of retail shop merchandise and is reported at the lower of cost or market (net realizable value).

Bond Issuance Costs

Costs incurred in connection with tax-exempt bond financing have been deferred and are being amortized over the term of the obligation on a straight line basis.

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in these financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates and Subsequent Events

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Zoo's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 16, 2010 the date these financial statements became available to be issued. No events have occurred subsequent to the balance sheet date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Zoo operates as a publicly supported tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Zoo has evaluated the tax positions taken on returns for open years and those expected to be taken on returns for 2010. It is management’s belief that such tax positions are more likely than not to be sustained upon examination by tax authorities. Accordingly, no liability for uncertain tax positions has been reflected in these financial statements. Returns for tax years beginning with those filed for 2007 are open to examination.

3. Pledges Receivable

Pledges receivable as of June 30, 2010 and 2009 are expected to be collected as follows:

	2010	2009
Receivable in less than one year	$ 3,422	$ 5,387
Less - allowance for uncollectible pledges	(53)	(45)
Net pledges receivable in less than one year	$ 3,369	$ 5,342
Receivable in one to five years	1,522	3,431
Less - discount to net present value	(60)	(142)
Less - allowance for uncollectible pledges	(13)	(29)
Net pledges receivable in one to five years	$ 1,449	$ 3,260

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of estimated future cash flows. The present value of estimated future cash flows has been measured utilizing a discount rate of 2.54% for the years ended June 30, 2010 and 2009.

At June 30, 2010 and 2009, the Zoo has conditional pledges totaling $500 and $1,000 which will not be recognized as assets in the statements of financial position until such time as the Zoo meets the conditions of the promises.

Amounts in thousands of dollars except as otherwise specified. 9

4. Endowment and Marketable Securities

Activity in the Zoo's endowment funds for the years ended June 30, 2010 and 2009 was:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	$ 4,623	$ 2,685	$ 4,025	$ 11,333
Investment return:				
Interest and dividends	183	268	-	451
Realized gains	37	54	-	91
Unrealized gains	547	794	-	1,341
Fees	(1)	(1)	-	(2)
	766	1,115	-	1,881
Contributions	-	-	42	42
Amounts appropriated for current operations per spending policy	(210)	(319)	-	(529)
Balance at end of year	$ 5,179	$ 3,481	$ 4,067	$ 12,727

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	$ 5,858	$ 3,986	$ 2,986	$ 12,830
Investment return:				
Interest and dividends	128	152	-	280
Realized gains	119	141	-	260
Unrealized gains	(1,216)	(1,273)	-	(2,489)
Fees	-	(5)	-	(5)
	(969)	(985)	-	(1,954)
Contributions	-	-	1,039	1,039
Amounts appropriated for current operations per spending policy	(266)	(316)	-	(582)
Balance at end of year	$ 4,623	$ 2,685	$ 4,025	$ 11,333

Amounts in thousands of dollars except as otherwise specified.

4. Endowment and Marketable Securities (continued)

The Zoo's endowment includes donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Zoo has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2006* (UPMIFA) 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 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 as permanently restricted net assets, is classified as temporarily restricted net assets until appropriated and expended. Accordingly, the income and appreciation earned in the permanently restricted endowment has been classified as temporarily restricted net assets.

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

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization.

Accordingly, under the Zoo's endowment spending policy, five percent of the average of the fair value of each of the previous twelve quarters is appropriated to support the current operations. For the years ended June 30, 2010 and 2009, the amounts available per the Zoo's spending policy were approximately $529 and $582 respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees.

4. Endowment and Marketable Securities (continued)

Marketable securities at June 30, 2010 and 2009 consisted of the following:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Mutual funds - equities	$ 12,727	$ 13,485	$ 11,333	$ 13,432

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30, 2010 and 2009:

	2010	2009
Property and improvements	$ 48,094	$ 48,075
Equipment and furniture	2,469	2,469
Exhibits/Dinosaur pods	10,435	9,326
	60,998	59,870
Less: Accumulated depreciation	(14,498)	(11,753)
	$ 46,500	$ 48,117

6. Derivative Instruments

The Zoo entered into interest rate swap agreements on $10 million of the bonds payable. The swap agreements were designated as fair value hedges of the floating-rate debt. Under these interest rate swap contracts, the Zoo makes the variable interest payments required under the bond indenture and either receives or pays additional interest based on the Security Industry Financial Markets Associates (SIFMA) municipal swap index. The effect of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. The fair market value of the liabilities was $841 and $703 at June 30, 2010 and 2009. The unrealized losses on the interest rate swap are reflected in the statement of activities and changes in net assets.

The estimated fair value of the interest rate swap agreements was computed by the counterparty using the net present value of fixed and floating future cash flows estimated through the use of various forward interest rate yield curves, and reviewed by the Zoo. No material adjustments to the fair value of the interest rate swaps were necessary as computed. These financial instruments necessarily involve counterparty credit exposure. The counterparty for these interest rate swap agreements is a major financial institution with financial stability and creditworthiness.

Amounts in thousands of dollars except as otherwise specified. 12

7. Fair Value Disclosures

The valuation of the Zoo's assets and liabilities within the fair value hierarchy, as described in Note 2, consisted of the following at June 30, 2010 and 2009, respectively:

	2010		2009	
	Level 1	Level 2	Level 1	Level 2
Assets:				
Mutual funds - equities	$ 12,727	$ -	$ 11,333	$ -
Liabilities:				
Interest rate swaps	$ -	$ 841	$ -	$ 703

8. Other Assets

Other assets consisted of the following at June 30, 2010 and 2009:

	2010	2011
Bond issuance costs, net	$ 119	$ 108
Deferred rent	201	75
	$ 320	$ 183

9. Bonds Payable

On March 15, 2006, the Zoo issued $30 million in Variable Rate Demand Revenue Bonds (the "Bonds) through the Massachusetts Development Finance Agency. Bond proceeds were used, in part, to refinance Jurassic Park Petting Zoo Issue Series 2003 bond issuance which had an outstanding balance of $7 million at the time of the refinancing. Bond proceeds also provided the financing associated with a renovation and construction project of the buildings and pods which was completed in 2007.

The Bonds are secured by an irrevocable direct-pay letter of credit issued by a bank. The Bond agreement contains provisions for periodic adjustment of interest rates and interest payment dates. The Bonds mature on December 31, 2040. Interest on the Bonds is payable monthly and the principal is payable each January. During the years ended June 30, 2010 and 2009, interest on the Bonds was $469 and $789, respectively.

Amounts in thousands of dollars except as otherwise specified. 13

9. Bonds Payable (continued)

Under the terms of the Agreement, the Zoo is subject to certain restrictive covenants involving attaining certain liquidity ratios, additional indebtedness, and the use of assets financed by the Bonds. The Zoo was in compliance with the covenants.

Future principal payments are due January 1 of each year as follows:

Years ending June 30,	
2011	$ 2,230
2012	2,440
2013	2,650
2014	2,755
2015	2,875
Thereafter	8,550
	$21,500

The Zoo made $4,195 of additional principal payments on the bond obligation during the year ended June 30, 2009. During the year ended June 30, 2010 no payments other than the required principal payments were made.

10. Line-of-Credit

The Zoo has a line-of-credit with its bank permitting advances up to $1,000. Advances bear interest at the bank's base rate and are due on demand. The line-of-credit agreement is subject to annual renewal on January 25, 2010. The Zoo expects to renew the line-of-credit upon its expiration date. There were no outstanding balances on the line-of-credit at June 30, 2010 and 2009.

11. Note Payable

In May 2005 the Zoo borrowed $900 from the City of Boston, the proceeds of which were used to finance the dinosaur pod renovations and support its general operations. The loan bears interest at 1% and has a term of fifty years, at which time the outstanding balance and accrued interest will be due and payable. Interest has been imputed at the risk-free rate of 3.8% at the time the loan was made and was recorded as a contribution during year end June 30, 2005. The associated interest expense is recorded over the life of the loan, and was $6 during each of the years ended June 30, 2010 and 2009. Amounts shown as notes payable on the statement of financial position were $221 and $215 on June 30, 2010 and 2009, respectively.

Amounts in thousands of dollars except as otherwise specified. 14

12. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30,

	2010	2011
Capital campaign	$ 3,851	$ 5,488
Exhibits/Dinosaur pods	584	1,551
Education programs	705	1,209
Unexpended endowment appreciation	3,478	2,683
	$ 8,618	$ 10,931

Net assets released from restrictions for the years ended June 30, 2010 and 2009 were as follows:

	2010	2011
Capital campaign	$ 1,735	$ 6,756
Exhibits/Dinosaur pods	1,259	1,552
Education programs	713	898
Unexpended endowment appreciation	321	322
	$ 4,028	$ 9,528

13. Permanently Restricted Net Assets

Permanently restricted net assets consisted of investments in the following named funds at June 30, 2011 and :

	2010	2011
Brontosaurus Fund	$ 1,000	$ 1,000
Flintstone Fund	542	500
Rubble Fund	1,750	1,750
Footprint Fund	775	775
	$ 4,067	$ 4,025

Amounts in thousands of dollars except as otherwise specified. 15

14. Retirement Plan

The Zoo participates in a contributory retirement plan sponsored by the [Omitted], and makes contributions to the plan for the benefit of all eligible employees. The Zoo's contributions were $53 and $39 for the years ended June 30, 2010 and 2009, respectively.

15. Advertising Costs

The Zoo expenses the costs of advertising the first time the advertisement takes place. Advertising expenses for the years ended June 30, 2011 and were $51 and $9, respectively.

16. Rental Income

The Zoo leases a portion of its space to outside tenants. Minimum future base rentals to be received on these leases as of June 30, 2010 are:

Years ending June 30,	Amount
2011	$ 1,600
2012	1,669
2013	1,720
2014	1,751
2015	1,780
Thereafter	$ 2,199

Amounts in thousands of dollars except as otherwise specified. 16