



FINANCIAL STATEMENTS

Zoological Society of San Diego
Fiscal Years 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP



Zoological Society of San Diego

Financial Statements

Fiscal Years 2008 and 2007

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Report of Independent Auditors

The Board of Trustees
Zoological Society of San Diego

We have audited the accompanying statements of financial position of the Zoological Society of San Diego (the Society) as of December 28, 2008, and December 30, 2007, 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 Society'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Society's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 the Zoological Society of San Diego at December 28, 2008, and December 30, 2007, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the financial statements, effective January 1, 2007, the Society adopted Statement of Financial Accounting Standards No. 158 for its defined benefits pension plans.

Ernst & Young LLP

April 27, 2009

Zoological Society of San Diego

Statements of Financial Position

	December 28, 2008, December 30,	
	2008	2007
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 49,607	\$ 57,667
Accounts receivable, net	5,835	6,678
Inventories	2,991	3,313
Prepaid expenses and other assets	3,882	3,797
Investments	64,358	96,427
Bequests and contributions receivable, net	49,533	44,435
Property and equipment, net	188,021	174,883
Total assets	<u>\$ 364,227</u>	<u>\$ 387,200</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,527	\$ 15,801
Accrued salaries and salary-related expenses	15,510	16,147
Deferred support and revenue	14,177	16,455
Liability for pension benefits	42,250	7,263
Line of credit	3,500	3,500
Note payable	500	750
Bonds payable	43,500	44,250
Capital leases	234	329
Total liabilities	<u>143,198</u>	<u>104,495</u>
Net assets:		
Unrestricted	130,026	193,103
Temporarily restricted	65,409	69,717
Permanently restricted	25,594	19,885
Total net assets	<u>221,029</u>	<u>282,705</u>
Total liabilities and net assets	<u>\$ 364,227</u>	<u>\$ 387,200</u>

See accompanying notes.

Zoological Society of San Diego

Statements of Activities and Changes in Net Assets (In Thousands)

	Fiscal 2008				Fiscal 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Exhibition facilities:								
Admissions and memberships	\$ 63,630	\$ -	\$ -	\$ 63,630	\$ 63,124	\$ -	\$ -	\$ 63,124
Auxiliary activities	86,250	-	-	86,250	86,951	-	-	86,951
Contributions	3,652	19,245	5,709	28,606	1,918	30,622	2,172	34,712
Grant revenue for services	4,387	-	-	4,387	4,166	-	-	4,166
Tax revenue and other	17,391	-	-	17,391	12,557	-	-	12,557
Net assets released from restriction	23,877	(23,877)	-	-	14,689	(14,689)	-	-
Total revenues and support	199,187	(4,632)	5,709	200,264	183,405	15,933	2,172	201,510
Expenses:								
Exhibition facility operations	149,567	-	-	149,567	144,095	-	-	144,095
Research and conservation activities	17,046	-	-	17,046	15,515	-	-	15,515
Educational programs	2,776	-	-	2,776	3,244	-	-	3,244
Administration	17,497	-	-	17,497	15,822	-	-	15,822
Total expenses	186,886	-	-	186,886	178,676	-	-	178,676
Excess revenues over expenses before								
other income (expense)	12,301	(4,632)	5,709	13,378	4,729	15,933	2,172	22,834
Investment income	534	324	-	858	1,575	583	-	2,158
Net realized gains (losses)	(749)	-	-	(749)	4,914	-	-	4,914
Net unrealized losses	(33,787)	-	-	(33,787)	(2,965)	-	-	(2,965)
Interest expense	(1,325)	-	-	(1,325)	(1,552)	-	-	(1,552)
Excess revenues over expenses	\$ (23,026)	\$ (4,308)	\$ 5,709	\$ (21,625)	\$ 6,701	\$ 16,516	\$ 2,172	\$ 25,389
Reconciliation of changes in net assets								
Net assets at beginning of year	\$ 193,103	\$ 69,717	\$ 19,885	\$ 282,705	\$ 193,494	\$ 53,201	\$ 17,713	\$ 264,408
Excess revenues over expenses	(23,026)	(4,308)	5,709	(21,625)	6,701	16,516	2,172	25,389
Pension-related changes other than								
net periodic pension cost	(34,291)	-	-	(34,291)	(6,160)	-	-	(6,160)
Unrealized loss on swap transaction	(5,760)	-	-	(5,760)	(932)	-	-	(932)
Net assets at end of year	\$ 130,026	\$ 65,409	\$ 25,594	\$ 221,029	\$ 193,103	\$ 69,717	\$ 19,885	\$ 282,705

See accompanying notes.

Zoological Society of San Diego

Statements of Cash Flows

Years Ended December 28, 2008 (Fiscal 2008) and December 30, 2007 (Fiscal 2007)

	Fiscal 2008	Fiscal 2007
	<i>(In Thousands)</i>	
Operating activities		
Excess revenues over expenses	\$ (21,625)	\$ 25,389
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,787	13,790
Provision for uncollectible receivables	26	26
Net realized (gain) loss on sale of investments	749	(4,914)
Net unrealized loss on investments	33,787	2,965
Investment earnings on bond construction fund	-	(222)
Net (gain) loss on disposal of property and equipment	(59)	679
Noncash contributions	(15,209)	(19,577)
Restricted contributions	(9,745)	(13,217)
Changes in operating assets and liabilities:		
Accounts receivable	817	3,334
Inventories	322	(150)
Prepaid expenses and other assets	(85)	133
Bequests and contributions receivable	4,146	6,884
Accounts payable and accrued expenses	1,966	(1,937)
Accrued salaries and salary-related expenses	59	(474)
Deferred support and revenue	(2,278)	1,202
Net cash provided by operating activities	9,658	13,911
Investing activities		
Proceeds from sale of marketable securities	74,309	41,591
Purchase of marketable securities	(70,811)	(38,819)
Draws from bond construction fund	-	17,701
Purchase of property and equipment	(29,866)	(35,090)
Net cash used in investing activities	(26,368)	(14,617)
Financing activities		
Payments on line of credit	-	(1,525)
Payments on note payable	(250)	(250)
Payments on bonds payable	(750)	(750)
Principal payments of capital lease obligations	(95)	(26)
Endowment contributions	20	2,172
Contributions for programs and capital improvements	9,725	11,045
Net cash provided by financing activities	8,650	10,666
Net (decrease) increase in cash and cash equivalents	(8,060)	9,960
Cash and cash equivalents at beginning of year	57,667	47,707
Cash and cash equivalents at end of year	\$ 49,607	\$ 57,667
Supplemental schedule of noncash financing activities		
Cash paid for interest during the year	\$ 1,686	\$ 2,048
Capital equipment financing	\$ -	\$ 230

See accompanying notes

Zoological Society of San Diego

Notes to Financial Statements (All Dollar Amounts in Thousands)

December 28, 2008

1. Summary of Significant Accounting Policies

Basis of Presentation

The Zoological Society of San Diego (the Society) was incorporated in 1916, as a private, nonprofit corporation directed by a Board of Trustees (the Board). The Society operates two exhibition facilities, the World-Famous San Diego Zoo and the San Diego Zoo's Wild Animal Park, and conducts conservation programs through its worldwide research operations, referred to collectively as San Diego Zoo's Institute for Conservation Research. The San Diego Zoo and the Wild Animal Park exhibit animals and horticulture in natural botanical settings for the education and entertainment of visitors. At the Institute for Conservation Research, scientists, technicians and students work to further the conservation of animals, plants and endangered ecosystems. In addition to laboratory work, the Institute for Conservation Research also promotes in-situ conservation via its field programs in key areas and "hotspots" in China, the Pacific Region, the southwestern United States, the Caribbean Islands, South America, Africa and elsewhere. The Institute for Conservation Research is also home to the Frozen Zoo®, the world's largest collection of genetic and reproductive material from endangered animals.

The Society formed the ZSSD Foundation (the Foundation) in 2007. The Foundation is a related supporting organization, which conducts fund raising activities for the Society. Funds raised by the Foundation are received directly by the Society and recorded as contribution revenue. The Foundation and the Society are not consolidated for reporting purposes.

Accounting Period

The Society reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended December 28, 2008, included 52 weeks and has been designated as Fiscal 2008 in the accompanying financial statements. The fiscal year ended December 30, 2007, included 52 weeks and has been designated as Fiscal 2007 in the accompanying financial statements.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to the Society, the Society's accounts are maintained in accordance with the principles of fund accounting, a procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics are combined into three net asset categories:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Society to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by the Society's expenditure for the specified purpose.
- Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the Society to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenue Recognition

The Society records admissions, auxiliary activities and grants as earned. Tickets sold in advance to travel and tourism companies are deferred until used. Membership revenue is deferred over the term of the membership, typically one year. In addition, the Society records gifts of long-lived assets as revenue at their fair value when they are received unconditionally. Conditional contributions, including pledges, are recognized as revenue when the conditions on which they depend have been substantially met.

Auxiliary Activities

The Society's auxiliary activities include retail merchandise, food and beverage, transportation operations, Wild Animal Park parking, educational activities and other similar support activities.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Animal and Horticultural Collections

In accordance with customary practice among zoological organizations, animal and horticultural collections are recorded at the nominal amount of one dollar, as there is no objective basis for establishing value. Additionally, animal and horticultural collections have numerous attributes, including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Expenditures related to animal and horticultural acquisitions are expensed in the period of acquisition.

In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, the Society shares animals with other organizations. Consistent with industry practice, the Society does not record any asset or liability for such sharing arrangements, as generally these arrangements are without monetary consideration.

Cash and Cash Equivalents

The Society considers short-term investments with a maturity date of 90 days or less from the date of purchase to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of trade receivables and nontrade receivables. Trade receivables consist of outstanding balances from travel and tourism companies that purchase and then resell admission tickets to our facilities. The allowance for doubtful accounts represents the Society's best estimate of uncollectible accounts receivable based on historical experience. Write-offs are deducted from the allowance for doubtful accounts and subsequent recoveries are added.

Investments

Investments with readily determinable fair values are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statements of activities.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Foreign Exchange Forward Contracts

In 2007, the Society utilized forward exchange contracts as part of its investment practices. These contracts reduce currency risk from exchange rate movements. These contracts were typically 12 months in duration. All outstanding contracts held at year-end 2007 expired in 2008 and the Society did not enter into any new forward exchange contracts during 2008. The fair value of foreign exchange forward contracts at year-end 2007 was estimated by obtaining quotes for futures contracts with similar terms, adjusted where necessary for maturity differences. Changes in the fair value of these contracts are recorded as unrealized gains or losses in the statements of activities.

Concentration of Credit Risk

The Society invests its excess cash in various types of investments. The Society has established guidelines relative to diversification and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Short-term investments are only placed in investment grade money market instruments. Long-term funds held for reserves and endowments are invested through an independently managed equity portfolio.

Inventories

The Society's inventory is valued at the lower of cost or market, and accounted for using a weighted-average cost basis.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are generally from three to 25 years. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Society assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made full recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset's fair value. No impairment charges were recognized on long-lived assets during 2008 and 2007.

Donations and Bequests

Donations with donor-imposed restrictions are reported as temporarily or permanently restricted revenue. Temporarily restricted net assets are reclassified to unrestricted net assets when an event occurs which satisfies the donor-imposed restriction. Donations of long-lived assets are recorded at their appraised value when received.

Operating Agreements

The Society operates the San Diego Zoo and the Wild Animal Park pursuant to lease agreements with the City of San Diego. The agreements provide that title to the Society's property and exhibits is vested in the City. However, the Society's assets are recorded on the books of the Society, as the Society is permitted to pledge these assets.

The San Diego Zoo operating agreement expires in 2034. The Wild Animal Park operates under a renewable short-term agreement with the City of San Diego Water Utilities Department. Every five years, the fair rental value of the land is evaluated and the annual rent amount adjusted. The Society paid \$130 as annual rent in 2008 and 2007.

Income Taxes

As a nonprofit organization qualified under Section 501(c)(3) of the Internal Revenue Code, the Society is not subject to income tax except for taxes on the receipt of income, if any, which is unrelated to the Society's tax-exempt purpose.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Debt Issuance Costs

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the life of the related debt.

Interest Rate Swap

The Society utilizes interest rate swap contracts to manage the risk associated with fluctuations in interest rates on its variable rate debt. Pursuant to these agreements the Society makes periodic payments to the swap counterparty at a fixed interest rate and receives payments at a variable rate computed in accordance with the contractual formula. The Society's policy is not to utilize financial instruments for trading or speculative purposes. Accordingly, it designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Substantially all of the Society's interest bearing debt carries a floating interest rate. Therefore, in the normal course of business the Society is exposed to changes in short-term interest rates that can create uncertainty and variability in its cash flows. To mitigate this exposure, in June 2004, the Society entered into a 30-year interest rate swap agreement converting a notional \$30,000 of floating-rate debt into fixed-rate debt that currently bears interest at 3.905%. After giving effect to this interest rate swap, approximately one-third of the Society's outstanding interest-bearing debt carries a floating interest rate and the other two-thirds is effectively at fixed rates at 2008 year-end.

In November 2007, the Society entered into a short-term swap agreement effective December 1, 2008, with a maturity date of December 1, 2012. The swap carries a fixed rate of 4.52% that will offset the variable rate of the line of credit facility entered into on October 30, 2007. At 2008 year-end, there were no amounts outstanding under this swap agreement.

Changes in the fair market value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the statements of activities. The valuation of the swaps resulted in an unrealized loss of \$5,760 in 2008 and an unrealized loss of \$932 in 2007. Gains and losses on interest rate swaps are included in net unrealized gains (losses) on the statements of activities. As of year-end 2008, the accumulated net unrealized loss totaled \$8,245. Providing that the Society holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rate at any time during the swap.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

- The carrying values of cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
- Investments are reported at fair value based on quoted market prices in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.
- The carrying amount of bequests and donations receivable approximates fair value because these donations, which are anticipated to be collected in cash, are recorded at the net present value of the amounts pledged, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.
- The carrying amount of the capital lease and line of credit obligations approximates fair value because the obligations are recorded at the net present value of future payments at market interest rates.

Fair Value Measurements

Effective fiscal 2008, the Society adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provides a one-year deferral of the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Society has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement did not have a material impact on the Society's results of operations and financial condition.

Zoological Society of San Diego

Notes to Financial Statements (continued) (All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

Assets and liabilities measured at fair value on a recurring basis as of year-end 2008, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash, certificates of deposit, and money market mutual fund ⁽¹⁾	\$ 49,607	\$ 49,607	\$ -	\$ -
Investments available for sale including interest receivable	64,358	64,358	-	-
Total assets	\$ 113,965	\$ 113,965	\$ -	\$ -
Liabilities				
Accumulated loss on interest-rate swaps	\$ 8,245	\$ -	\$ 8,245	\$ -
Total liabilities	\$ 8,245	\$ -	\$ 8,245	\$ -

⁽¹⁾ Included as a component of cash and cash equivalents on accompanying statements of financial position.

New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. This interpretation is effective for fiscal years beginning after December 15, 2006, and the Society has adopted this interpretation for the years ended 2008 and 2007. FIN 48 did not have a material effect on the Society's financial position, results of operations or cash flows.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

1. Summary of Significant Accounting Policies (continued)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 (beginning with the Society's 2008 fiscal year), although earlier application is encouraged. The Society adopted SFAS 157 for fiscal 2008. SFAS 157 did not have a material effect on the Society's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Society adopted SFAS 159 for fiscal 2008. SFAS 159 did not have a material effect on the Society's financial position, results of operations or cash flows.

Advertising Costs

Advertising costs are expensed as incurred and amounted to \$7,716 and \$8,024 for 2008 and 2007, respectively.

Use of Estimates

In accordance with its established practices, management of the Society has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities in order to prepare its financial statements in accordance with generally accepted accounting principles in the United States. Actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

2. Accounts Receivable

A summary of accounts receivable at year-end is as follows:

	<u>2008</u>	<u>2007</u>
Trade receivables	\$ 1,168	\$ 2,473
Tax revenue receivable	1,773	–
Grant receivables	805	1,206
Receivable from insurance (Note 12)	1,400	3,000
Other	709	–
Allowance for doubtful accounts	(20)	(1)
Net accounts receivable	<u>\$ 5,835</u>	<u>\$ 6,678</u>

3. Inventories

A summary of inventories at year-end is as follows:

	<u>2008</u>	<u>2007</u>
Merchandise	\$ 1,911	\$ 2,294
Food service	725	658
Animal food and other	355	361
Total inventories	<u>\$ 2,991</u>	<u>\$ 3,313</u>

Zoological Society of San Diego

Notes to Financial Statements (continued)
(All Dollar Amounts in Thousands)

4. Investments

Investments, consisting primarily of equity securities, totaled \$64,358 and \$96,427 at year-end 2008 and 2007, respectively. Investments are recorded at fair market value. Included in investments is a cumulative net unrealized gain (loss) at year-end 2008 and 2007 of (\$13,791) and \$19,062, respectively. In 2007, the Society utilized forward exchange contracts as part of its investment practices. These contracts were typically 12 months in duration. All outstanding contracts held at year-end 2007 expired in 2008 and the Society did not enter into any new forward exchange contracts during 2008. The unrealized loss on forward exchange contracts totaled \$0 and \$702 at year-end 2008 and 2007, respectively. Total unrealized gain and losses on investments are as follows:

December 28, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Investments	\$ 78,563	\$ 3,626	\$ (17,831)	\$ 64,358

December 30, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Investments	\$ 77,365	\$ 22,182	\$ (3,120)	\$ 96,427

The following table shows the gross unrealized losses and fair values of the Society's investments in individual securities that have been in a continuous unrealized loss position deemed to be temporary for less than 12 months and for more than 12 months as of December 28, 2008:

	Less than 12 Months		More than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Equity securities	\$ 56,621	\$ (14,291)	\$ 7,737	\$ (3,540)

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

5. Bequests and Donations Receivable

Bequests and donations of private support are recorded as revenue upon the receipt of the unconditional promise to give. The Society believes that certain bequests and donations may not be collected due to a variety of circumstances and has provided an allowance for such amounts.

Bequests and donations receivable are expected to be collected as follows:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 6,544	\$ 3,823
In more than five years	43,239	40,862
	<u>49,783</u>	<u>44,685</u>
Allowance for uncollectible amounts	(250)	(250)
Net bequests and donations receivable	<u>\$ 49,533</u>	<u>\$ 44,435</u>

Bequests and donations receivable are primarily comprised of split-interest agreements consisting of pooled-income funds, irrevocable trusts, charitable remainder trusts and charitable gift annuities. Due to the nature of these items, it is difficult to estimate the time frame during which these will be collected. Consequently, all bequests receivable after one year are shown as collectible in more than five years. Pooled income funds and charitable remainder trusts that are expected to be collected in more than one year have been recorded at net present value, calculated using a discount rate of 4.6% and 4.8% for the years ended 2008 and 2007, respectively. With charitable gift annuities, the Society receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime or lifetimes of the donor or other beneficiaries. Upon the death of the annuitant or survivor of the annuitants, the Society is entitled to full use of the remainder. For charitable gift annuities and irrevocable trusts, the assets are recorded at fair value. A liability is then recorded for charitable gift annuities for the amount of the annuity payments that must be paid by the Society to the donor based on the actuarial life of the donor. The difference between the recorded asset and the liability is recorded as an adjustment to the statement of activities for the given year.

Zoological Society of San Diego

Notes to Financial Statements (continued) (All Dollar Amounts in Thousands)

6. Property and Equipment

A summary of property and equipment at year-end is as follows:

	<u>2008</u>	<u>2007</u>
Buildings, exhibits, and improvements	\$ 307,874	\$ 297,743
Transportation and equipment	29,966	26,122
Construction in progress	25,257	11,742
	<u>363,097</u>	<u>335,607</u>
Less accumulated depreciation and amortization	(175,076)	(160,724)
Net property and equipment	<u>\$ 188,021</u>	<u>\$ 174,883</u>

Property and equipment includes capitalized interest of \$1,540 and \$1,210 for the years ended 2008 and 2007, respectively.

Capital lease obligations, included in transportation and equipment, are secured by equipment with a gross cost of \$358 at year-end 2008 and 2007. Accumulated amortization related to leased assets was \$117 and \$30 at year-end 2008 and 2007, respectively.

7. Debt

Tax-Exempt Bonds

In June 2004, the Society issued \$45,000 of tax-exempt variable rate demand bonds through the Association of Bay Area Governments in the State of California for the construction of improvements of its facilities at the Wild Animal Park and for the repayment of short-term debt. Interest on the bonds (2.93% and 3.73% at year-end 2008 and 2007, respectively), is adjusted through a weekly remarketing process in the tax-exempt bond market. The bonds are secured by a standby letter of credit that is guaranteed by the Society, collateralized by the assets of the Society and subject to certain restrictive covenants. In the event of a failure in the remarketing process, the standby letter of credit can be drawn upon to pay the principal of the bonds. In the event of such a failure and subsequent draw upon the line of credit, the Society may be required to repay the then outstanding principal over a time period of less than a year. The included debt repayment schedule assumes payments under the original contract terms. At 2008 year-end, the Society was in compliance with all financial covenants under the debt agreement. The bonds

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

7. Debt (continued)

mature October 1, 2034. Interest is payable monthly. Principal payments began October 1, 2007, and are based on an amortization schedule. At year-end 2008, the Society had fully utilized the bond proceeds.

Costs incurred to issue the tax-exempt bonds totaled \$712. The costs have been deferred and included in prepaid expenses and other assets in the statements of financial position and amortized over the 30-year term of the bonds using the effective interest method. At year-end 2008 and 2007, the unamortized balances of the issuance costs were \$605 and \$629, respectively.

Line of Credit

The Society has an unsecured financing agreement with its primary bank that permits multiple borrowings, at variable rates of interest, up to \$10,000. The financing agreement, which expires on November 1, 2009, provides that the Society may elect for each individual borrowing on the line of credit, to have interest calculated using rates based on one of the following: (1) the bank's reference rate, (2) LIBOR, or (3) IBOR. At year-end 2008 and 2007, the outstanding balance of \$3,500 bears interest at 2.25% and 6.12%, respectively. Interest payments are required to be made monthly. The line of credit contains certain covenants with which the Society was in full compliance at year-end 2008 and 2007. At year-end 2008 and 2007, the Society has outstanding letters of credit for \$953 under this agreement. The letter of credit reduces the amount available for borrowing.

On October 30, 2007, the Society amended the loan agreement to include an additional line of credit facility of \$20,000 until December 30, 2009; \$16,500 from December 31, 2009 to December 30, 2010; \$12,500 from December 31, 2010 to December 30, 2011; and \$7,500 from December 30, 2011 to December 30, 2012. The line of credit will be utilized for the construction of exhibition facilities and other improvements covered by specific pledges of future donations. Interest is payable monthly. Principal payments are fully due by December 30, 2012. There were no amounts outstanding under this line as of year-end 2008 and 2007.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

7. Debt (continued)

Note Payable

On February 6, 2003, the Society entered into an agreement with a university to purchase certain environmental credits in exchange for \$250 cash and a note payable for \$1,750. The environmental credits were attached to a parcel of land owned by the university, which upon dedication to the City of San Diego can be used as mitigation credits required in connection with construction projects at the Wild Animal Park. The note payable bears a 7% interest rate and is payable in annual installments over seven years. The outstanding principal balance totaled \$500 and \$750 at year-end 2008 and 2007, respectively.

Principal debt payments are as follows:

2009	\$	4,500
2010		1,000
2011		995
2012		1,040
2013		1,090
Thereafter		38,875
	\$	<u>47,500</u>

Capital Lease Obligations

The Society has capital lease obligations with interest rates ranging from 5.45% to 7.10%. The weighted-average interest rate of all lease obligations is 6.09%.

Minimum lease payments are as follows:

2009	\$	112
2010		92
2011		33
2012		16
2013		—
		<u>253</u>
Imputed interest		(19)
Net present value	\$	<u>234</u>

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

8. Board Designated Net Assets

Certain unrestricted net assets have been designated by the Board of Trustees to only be used for specific purposes. These designations include a fund for the Institute for Conservation Research designated to provide for conservation and research of rare and endangered species. In addition, the Board has designated amounts for an emergency reserve and a strategic reserve. The emergency reserve is to provide for unexpected or unanticipated expenditures when other sources of funds are not available. The strategic reserve is to provide for future operating needs. As these board restrictions are subject to change at the board's discretion, they are not reflected as restricted net assets in the accompanying financial statements.

9. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets at year-end are available for the following purposes:

	Temporarily Restricted	
	2008	2007
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 8,714	\$ 21,197
Wild Animal Park exhibits and equipment	4,261	2,094
Other capital	778	702
Total restricted for capital investment	13,753	23,993
Restricted for programs:		
Panda research	319	581
Education	287	349
Conservation and research	1,209	187
Other programs	308	172
Total restricted for programs	2,123	1,289
Bequests and contributions receivable	49,533	44,435
Total temporarily restricted net assets	\$ 65,409	\$ 69,717

Zoological Society of San Diego

Notes to Financial Statements (continued) (All Dollar Amounts in Thousands)

9. Temporarily and Permanently Restricted Net Assets (continued)

	Permanently Restricted	
	2008	2007
Endowments:		
Institute for Conservation Research	\$ 18,204	\$ 12,502
Education	2,722	2,722
Steel Foundation – Director’s endowment	1,929	1,929
Wegeforth Fund	2,739	2,732
Total permanently restricted net assets	\$ 25,594	\$ 19,885

10. Pension and Benefit Plans

The Society has defined benefit pension plans that cover substantially all of its full-time employees. The plans provide benefits based upon years of service and final average earnings. The Society’s funding policy is to maintain asset balances equal to at least 90% of each plan’s current liability as calculated under the Employee Retirement Income Security Act (ERISA).

Effective January 1, 2007, the Society adopted Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS 158, the Society is required to recognize the overfunded or underfunded status of its defined pension plans as an asset or liability in its statements of financial position and to recognize changes in that funded status in the year in which the changes occur as changes in unrestricted net assets arising from defined benefits plans but not yet included in net periodic benefit cost in the statement of changes in net assets.

The funding status of the Society’s pension plans in Fiscal 2008 and Fiscal 2007 was as follows:

	2008	2007
Plan assets at fair value	\$ 51,509	\$ 72,628
Projected benefit obligation	(93,759)	(79,891)
Funded status	\$ (42,250)	\$ (7,263)
Accumulated benefit obligation	\$ 83,311	\$ 71,444

Zoological Society of San Diego

Notes to Financial Statements (continued) (All Dollar Amounts in Thousands)

10. Pension and Benefit Plans (continued)

Weighted-average assumptions:

Discount rate	6.5%	6.15%
Expected return on plan assets	8.25%	8.8%
Rate of compensation increase	3.0%	3.0%

The Society uses an actuarial measurement date of January 1 of the current year to determine pension benefit measurements as of December 31 of the current year. The discount rate is the estimated rate at which the obligation for pension benefits could effectively be settled. The expected return on plan assets reflects the average rate of earnings that the Society estimates will be generated on the assets of the plans. The rate of compensation increase reflects the Society's best estimate of the future compensation levels of the individual employees covered by the plans.

Plan assets are invested in equity and debt securities using separate investment funds. The Society's management and board investment committee monitor performance against benchmark indices.

The following table shows the asset allocation percentages for pension investments at year-end 2008 and 2007:

	2008	2007
Equity securities	72%	80%
Debt securities	12%	19%
Cash and cash equivalents	16%	1%
	100%	100%

The following table sets forth benefit cost and benefits paid:

	2008	2007
Benefit cost	\$ 3,253	\$ 3,285
Benefits paid	\$ 2,254	\$ 2,106
Employer contributions	\$ 3,212	\$ 5,000

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

10. Pension and Benefit Plans (continued)

Net prior service cost amortization of \$303 and net loss amortization of \$34 were recorded in pension expense for 2008. Prior service cost of \$1,818 and an actuarial net loss of \$42,099 were recognized in unrestricted net assets at year-end 2008. The Society expects to record \$303 of net prior service cost amortization and \$2,153 of net loss amortization in 2009.

The Society expects to make a total of \$9,750 in pension contributions during fiscal year 2009.

The following table shows the amounts recognized in the statements of financial position:

	<u>2008</u>	<u>2007</u>
Accrued benefit cost	<u>\$ 42,250</u>	<u>\$ 7,263</u>

Benefit payments are expected to be paid as follows:

2009	\$ 2,483
2010	2,546
2011	2,662
2012	2,808
2013	3,320
2014-2018	26,086
	<u>\$ 39,907</u>

The Society also maintains a 403(b) defined contribution plan, covering employees who meet certain age and service requirements. Eligible employees may contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations. The 403(b) defined contribution plan allows for employer matching contributions to eligible employees. Employer matching contributions totaled \$926 and \$884 for the years ended 2008 and 2007, respectively.

11. Collective Bargaining Agreement

The Society is a party to a collective bargaining agreement with a labor union. The agreement expires in February 2013. At year-end 2008, there were 1,440 employees or approximately 65% of total employees represented by a labor union.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

12. Insurance Recovery

In October 2007, the Society incurred losses at its Wild Animal Park facility due to wildfires. The wildfire damaged and destroyed fixed assets and impaired operations. Many of the assets were fully depreciated. An insurance claim was submitted and the Society received amounts totaling \$4,900 of which \$1,400 and \$3,000 were recorded as a receivable as of year-end 2008 and 2007, respectively. Losses and expenses totaling \$1,100 were recorded in Exhibition facility operations and a \$1,900 gain was recorded in tax revenue and other on the statement of activities in 2007. The Society recorded additional losses and expenses of \$933 and a \$1,900 gain in 2008.

13. Commitments and Contingencies

The Society is subject to claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part upon the advice of legal counsel, these matters are of such a nature that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Society.

The Society has entered into certain noncancelable lease agreements for a warehouse facility and office space as well as noncancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense was \$1,211 and \$1,010 for the years ended 2008 and 2007, respectively. Minimum lease payments under these agreements at December 30, 2008, are as follows:

2009	\$	1,278
2010		1,189
2011		963
2012		250
2013		17
Thereafter		—
	\$	<u>3,697</u>