

FINANCIAL STATEMENTS

Zoological Society of San Diego

Fiscal Years 2004 and 2003 with Report of Independent Auditors

Zoological Society of San Diego

Financial Statements

Fiscal Years 2004 and 2003

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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 January 2, 2005 and December 28, 2003, and the related statements of activities 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 January 2, 2005 and December 28, 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

April 21, 2005

ZOOLOGICAL SOCIETY OF SAN DIEGO
Statements of Financial Position
(in thousands)

Assets	Year End	
	2004	2003
Cash and cash equivalents	\$ 38,439	\$ 32,744
Bond construction fund	30,442	—
Accounts receivable, net	2,052	5,252
Inventories	2,903	3,310
Prepaid expenses and other assets	4,171	3,513
Investments	80,382	66,258
Bequests and donations receivable	19,863	28,715
Property and equipment, net	133,938	115,173
Total assets	\$ 312,190	\$ 254,965
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 15,097	\$ 12,949
Accrued salaries and salary-related expenses	22,197	23,076
Deferred support and revenue	12,826	11,779
Current debt	8,275	17,775
Long-term debt	46,250	1,500
Capital lease obligations	112	334
Total liabilities	104,757	67,413
Net assets:		
Unrestricted	164,770	139,561
Temporarily restricted	27,096	32,598
Permanently restricted	15,567	15,393
Total net assets	207,433	187,552
Total liabilities and net assets	\$ 312,190	\$ 254,965

See accompanying notes.

ZOOLOGICAL SOCIETY OF SAN DIEGO

Statements of Activities

(in thousands)

	Fiscal 2004				Fiscal 2003			
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted			Restricted	Restricted	
Revenues and support:								
Exhibition facilities:								
Admissions and memberships	\$ 58,851	\$ —	\$ —	\$ 58,851	\$ 55,096	\$ —	\$ —	\$ 55,096
Auxiliary activities	72,582	—	—	72,582	64,595	—	—	64,595
Tax revenue and other	6,373	—	—	6,373	6,146	—	—	6,146
Total exhibition facilities	137,806	—	—	137,806	125,837	—	—	125,837
Grants	4,463	—	—	4,463	4,366	—	—	4,366
Donations and bequests	9,183	15,081	174	24,438	6,633	16,851	641	24,125
Other	151	—	—	151	241	—	—	241
	151,603	15,081	174	166,858	137,077	16,851	641	154,569
Net assets released from restriction	20,588	(20,588)	—	—	11,958	(11,958)	—	—
Total revenues and support	172,191	(5,507)	174	166,858	149,035	4,893	641	154,569
Expenses:								
Exhibition facility operations	124,746	—	—	124,746	126,906	—	—	126,906
Research and conservation activities	14,038	—	—	14,038	13,819	—	—	13,819
Educational programs	2,296	—	—	2,296	2,470	—	—	2,470
Administration and development	13,325	—	—	13,325	12,171	—	—	12,171
Pension expense	2,751	—	—	2,751	3,107	—	—	3,107
Transfers	—	—	—	—	—	—	—	—
Total expenses	157,156	—	—	157,156	158,473	—	—	158,473
Change in net assets before other income (expense)	15,035	(5,507)	174	9,702	(9,438)	4,893	641	(3,904)
Investment income	223	5	—	228	100	5	—	105
Net realized gains	5,714	—	—	5,714	4,044	—	—	4,044
Net unrealized gains	4,319	—	—	4,319	11,073	—	—	11,073
Interest expense	(586)	—	—	(586)	(302)	—	—	(302)
Change in net assets	24,705	(5,502)	174	19,377	5,477	4,898	641	11,016
Change in minimum pension liability	504	—	—	504	(917)	—	—	(917)
Net assets at beginning of year	139,561	32,598	15,393	187,552	135,001	27,700	14,752	177,453
Net assets at end of year	\$ 164,770	\$ 27,096	\$ 15,567	\$ 207,433	\$ 139,561	\$ 32,598	\$ 15,393	\$ 187,552

See accompanying notes.

ZOOLOGICAL SOCIETY OF SAN DIEGO
Statements of Cash Flows

(in thousands)

	Fiscal 2004	Fiscal 2003
Cash flows from operating activities:		
Change in net assets	\$ 19,377	\$ 11,016
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,369	11,751
Provision for uncollectible receivables	—	52
Net realized gain on sale of investments	(5,714)	(4,044)
Net unrealized gain on investments	(6,297)	(11,073)
Net unrealized loss on interest rate swap	1,978	—
Net loss on disposal of property and equipment	37	68
Restricted contributions	(15,255)	(7,492)
Change in minimum pension liability	504	(917)
Changes in operating assets and liabilities:		
Accounts receivable	3,200	(1,218)
Inventories	407	703
Prepaid expenses and other assets	(658)	(2,254)
Bequests and donations receivable	8,852	(9,338)
Accounts payable and accrued expenses	170	3,067
Accrued salaries and salary-related expenses	(879)	9,609
Deferred support and revenue	1,047	758
	18,138	688
Cash flows from investing activities:		
Proceeds from sale of marketable securities	58,055	56,270
Purchase of marketable securities	(60,168)	(46,674)
Investment in bond construction fund	(30,442)	-
Purchase of property and equipment	(30,171)	(17,888)
	(62,726)	(8,292)
Cash flows from financing activities:		
Proceeds from line of credit	2,000	7,000
Payments on line of credit	(11,500)	(4,000)
Bond proceeds	45,000	—
Proceeds from note payable	—	1,750
Payments on note payable	(250)	—
Principal payments of capital lease obligations	(222)	(245)
Endowment contributions received	174	641
Contributions restricted for capital investment and programs	15,081	6,851
	50,283	11,997
Net increase in cash and cash equivalents	5,695	4,393
Cash and cash equivalents at beginning of year	32,744	28,351
Cash and cash equivalents at end of year	\$ 38,439	\$ 32,744
Supplemental schedule of noncash financing activities:		
Cash paid for interest during the year	\$ 1,098	\$ 302

See accompanying notes.

Zoological Society of San Diego

Notes to Financial Statements

January 2, 2005

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 Wild Animal Park, and conducts conservation programs through its research operation, the Conservation and Research for Endangered Species (CRES). 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 CRES, scientists, technicians and students work to further the conservation of animals, plants and endangered ecosystems. In addition to laboratory work, CRES 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. CRES is also home to the Frozen Zoo®, the world's largest collection of genetic and reproductive material from endangered animals.

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. This is the 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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Accounting Period

The Society reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended January 2, 2005 included 53 weeks and has been designated as Fiscal 2004 in the accompanying financials statements. The fiscal year ended December 28, 2003 included 52 weeks and has been designated as Fiscal 2003 in the accompanying financial statements.

Revenue Recognition

The Society records admissions, auxiliary activities and grants as earned. 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 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.

Animal and Horticultural Collections

In accordance with customary practice among zoological organizations, animal and horticultural collections are recorded at the nominal amount of \$1, 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. Acquisitions are recorded as expenditures 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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments

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

Foreign Exchange Forward Contracts

The Society enters into foreign exchange forward contracts related to foreign securities held in investments. These contracts reduce currency risk from exchange rate movements. Foreign currency price risks are hedged generally for 12 months. The fair value of foreign exchange forward contracts 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 statement of activities with the offset reflected in the statement of financial position as an asset or liability.

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 3 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)

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.

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.

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 \$130,000 as annual rent in 2004 and 2003.

Income Taxes

The Society qualifies as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and 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.

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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Interest Rate Swap

The Society utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates on its variable rate debt. Pursuant to this agreement 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 agreement as a hedge of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap.

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 thirty year interest rate swap agreement converting a notional \$30 million 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 2004 year end.

Changes in the fair market value of the interest rate swap are reported as unrealized gain or loss on interest rate swaps related to bonds on the Statement of Activities. For 2004, the valuation of the swap resulted in an unrealized loss of \$1.98 million. This loss on interest rate swap is included in net unrealized gains on the Statement of Activities. Providing that the Society holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at market rate at any time during the swap.

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*.

Zoological Society of San Diego

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

- 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.

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. Actual results could differ from these estimates.

Reclassifications

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

2. Accounts Receivable

A summary of accounts receivable at year end is as follows (in thousands):

	2004	2003
Tax revenue receivable	\$ —	\$ 2,500
Trade receivables	1,461	1,880
Other receivables	621	902
Allowance for doubtful accounts	(30)	(30)
Net accounts receivable	\$ 2,052	\$ 5,252

Zoological Society of San Diego

Notes to Financial Statements (continued)

3. Inventories

A summary of inventories at year end is as follows (in thousands):

	2004	2003
Merchandise	\$ 2,221	\$ 2,790
Food service	508	380
Animal food and other	174	140
Total inventories	<u>\$ 2,903</u>	<u>\$ 3,310</u>

4. Investments

Investments, which are primarily in equity securities, totaled \$80,382,000 and \$66,258,000 at year end 2004 and 2003, respectively. Investments are recorded at fair market value. Included in investments is a cumulative unrealized gain at year end 2004 and 2003 of \$18,666,000 and \$12,369,000, respectively. The unrealized loss on forward exchange contracts totaled \$979,000 and \$841,000 at year end 2004 and 2003, respectively.

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 (in thousands):

	2004	2003
Within one year	\$ 540	\$ 10,885
In more than five years	19,573	18,691
	<u>20,113</u>	<u>29,576</u>
Allowance for uncollectible amounts	(250)	(861)
Net bequests and donations receivable	<u>\$ 19,863</u>	<u>\$ 28,715</u>

Zoological Society of San Diego

Notes to Financial Statements (continued)

5. Bequests and Donations Receivable (continued)

Bequests and donations receivable are primarily comprised of split-interest agreements consisting of pooled-income funds, irrevocable trusts and charitable remainder trusts. Items that are expected to be collected in more than one year have been recorded at net present value, calculated using a discount rate of 5.3% for the years ended 2004 and 2003. 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 considered to be collectible in more than five years.

6. Property and Equipment

A summary of property and equipment at year end is as follows (in thousands):

	2004	2003
Buildings, exhibits and improvements	\$ 208,163	\$ 182,275
Transportation and equipment	45,025	42,506
Construction in progress	13,920	12,812
	267,108	237,593
Less accumulated depreciation and amortization	(133,170)	(122,420)
Net property and equipment	\$ 133,938	\$ 115,173

Property and equipment includes capitalized interest of \$443,000 for the year ended 2004. The estimate to complete the construction in progress is approximately \$41 million as of year end 2004.

Capital lease obligations are secured by equipment with a net book value of approximately \$464,000 and \$552,000 at year end 2004 and 2003, respectively. Accumulated amortization related to leased assets was \$568,000 and \$480,000 at year end 2004 and 2003, respectively.

Zoological Society of San Diego

Notes to Financial Statements (continued)

7. Debt

Bonds Payable

In June 2004, the Society issued \$45 million in tax-exempt 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 (1.98% at 2004 year end), is adjusted through a remarketing process weekly, based upon the current 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. At 2004 year end, the Society was in compliance with all financial covenants under the debt agreement. The bonds mature October 1, 2034. Interest is payable monthly. Principal payments are payable based on an amortization schedule beginning October 1, 2007. At year end 2004, the Society holds approximately \$30.4 million in a bond construction fund restricted for improvements of its facilities at the Wild Animal Park.

Line of Credit

The Society has an unsecured financing agreement with a commercial bank that permits multiple borrowings, at variable rates of interest, up to \$10 million. The financing agreement, which expires on November 1, 2006, 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 2004, the outstanding balance of \$8,025,000 bears interest at rates ranging from 2.86% to 3.75% with an overall effective rate of 3.01%. 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 2004.

At year end 2004, the Society has outstanding letters of credit for \$1,947,000 under this agreement. The letter of credit reduces the amount available for borrowing.

Note Payable

On February 6, 2003, the Society entered into an agreement with a university to purchase certain environmental credits in exchange for \$250,000 cash and a note payable for \$1,750,000. 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 7 years. The outstanding principal balance totaled \$1,500,000 at year end 2004.

Zoological Society of San Diego

Notes to Financial Statements (continued)

7. Debt (continued)

Principal debt payments are as follows (in thousands):

2005	\$ 8,275
2006	250
2007	1,000
2008	1,000
2009	1,000
Thereafter	<u>43,000</u>
	<u>\$ 54,525</u>

8. Capital Lease Obligations

The Society has capital lease obligations, with interest rates ranging from approximately 5.8% to 10.2% (a weighted average interest rate on all lease obligations is approximately 8.6%). The capital lease obligations expire in 2005. Minimum lease payments due for 2005 total \$114,000. Imputed interest included in minimum lease payments totals \$2,000. Net present value of minimum lease payments equals \$112,000.

9. 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 CRES designated to fund conservation and research for 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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets

Temporary and permanently restricted net assets at year end are available for the following purposes (in thousands):

	Temporarily Restricted	
	2004	2003
Restricted for capital investment:		
Lion Camp exhibit	\$ 14	\$ 848
Heart of the Zoo III exhibit	–	834
San Diego Zoo exhibits and equipment	404	149
Wild Animal Park exhibits and equipment	4,390	486
Veterinary equipment	610	–
Other capital	486	481
Total restricted for capital investment	5,904	2,798
Restricted for programs:		
Panda research	910	917
Education	220	309
Conservation and research	186	134
Other programs	13	2
Total restricted for programs	1,329	1,362
Donations and bequests receivable	19,863	28,438
Total temporarily restricted net assets	\$ 27,096	\$ 32,598
	Permanently Restricted	
	2004	2003
Endowments:		
CRES	\$ 11,166	\$ 11,041
Education	2,722	2,673
Steel Foundation – Director’s endowment	1,679	1,679
Total permanently restricted net assets	\$ 15,567	\$ 15,393

Zoological Society of San Diego

Notes to Financial Statements (continued)

11. 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 following table sets forth the plans' funded status based on the latest actuarial report (as of December 31, 2004) and the accrued benefit cost recognized in the Society's statements of financial position (in thousands):

	2004	2003
Plan assets at fair value	\$ 54,775	\$ 43,918
Projected benefit obligation	(69,218)	(59,545)
Funded status	(14,443)	(15,627)
Accrued benefit cost	6,424	7,650
Additional minimum liability	\$ 1,706	\$ 2,210

Weighted-average assumptions:

Discount rate	6.0%	6.25%
Expected return on plan assets	9.0%	8.5%
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 primarily in equity securities using two separate investment funds. The Society's management and board investment committee monitor performance against benchmark indices.

Zoological Society of San Diego

Notes to Financial Statements (continued)

11. Pension and Benefit Plans (continued)

The following table sets forth benefit cost and benefits paid (in thousands):

	2004	2003
Benefit cost	\$ 2,751	\$ 3,107
Benefits paid	\$ 1,624	\$ 1,565
Employer contributions	\$ 3,976	\$ —

Amounts recognized in the Statement of Financial Position (in thousands):

	2004	2003
Intangible pension asset	\$ 2,054	\$ 2,235
Accrued benefit liability	\$ 4,203	\$ 7,639
Additional minimum liability	\$ 3,760	\$ 4,445

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

Benefit payments are expected to be paid as follows (in thousands):

2005	\$ 1,831
2006	1,829
2007	1,832
2008	1,987
2009	2,140
Thereafter	14,962
	\$ 24,581

The Society also maintains 403(b) defined contribution plans, 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. In addition, the Society has a 403(b) defined contribution plan with allows for employer matching contributions to eligible employees. Employer matching contributions totaled \$719,000 and \$698,000 for the years ended 2004 and 2003, respectively.

Zoological Society of San Diego

Notes to Financial Statements (continued)

12. 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 non-cancelable lease agreements for a warehouse facility and office space as well as non-cancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense was \$820,000 and \$870,000 for the years ended 2004 and 2003, respectively. Minimum lease payments under these agreements are as follows (in thousands):

2005	\$	805
2006		718
2007		611
2008		599
2009		608
Thereafter		<u>1,197</u>
	\$	<u><u>4,538</u></u>