

FINANCIAL STATEMENTS

Zoological Society of San Diego

Fiscal Years 2005 and 2004

Zoological Society of San Diego

Financial Statements

Fiscal Years 2005 and 2004

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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 1, 2006 and January 2, 2005, 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 1, 2006 and January 2, 2005, 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 18, 2006

Zoological Society of San Diego

Statements of Financial Position

January 1, 2006 and January 2, 2005  
*(In Thousands)*

	<b>Year End</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 43,508	\$ 38,439
Bond construction fund	29,221	30,442
Accounts receivable, net	3,191	2,052
Inventories	3,040	2,903
Prepaid expenses and other assets	3,595	4,171
Investments	85,150	80,382
Bequests and contributions receivable	23,379	19,863
Property and equipment, net	138,288	133,938
Total assets	<u>\$ 329,372</u>	<u>\$ 312,190</u>
Accounts payable and accrued expenses	\$ 17,456	\$ 15,097
Accrued salaries and salary-related expenses	23,614	22,197
Deferred support and revenue	13,373	12,826
Current debt	6,775	8,275
Long-term debt	46,000	46,250
Capital lease obligations	-	112
Total liabilities	<u>107,218</u>	<u>104,757</u>
Net assets:		
Unrestricted	174,483	164,770
Temporarily restricted	31,010	27,096
Permanently restricted	16,661	15,567
Total net assets	<u>222,154</u>	<u>207,433</u>
Total liabilities and net assets	<u>\$ 329,372</u>	<u>\$ 312,190</u>

*See accompanying notes.*

# Zoological Society of San Diego

## Statements of Activities and Changes in Net Assets

Years Ended January 1, 2006 and January 2, 2005

*(In Thousands)*

	Fiscal 2005				Fiscal 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Admissions and memberships	\$ 59,473	-	-	\$ 59,473	\$ 58,851	-	-	\$ 58,851
Auxiliary activities	77,739	-	-	77,739	72,582	-	-	72,582
Contributions	9,066	14,558	1,094	24,718	9,183	15,081	174	24,438
Grant revenue for services	4,127	-	-	4,127	4,463	-	-	4,463
Tax revenue and other	7,404	-	-	7,404	6,524	-	-	6,524
Net assets released from restriction	10,658	(10,658)	-	-	20,588	(20,588)	-	-
Total revenues and support	168,467	3,900	1,094	173,461	172,191	(5,507)	174	166,858
Expenses:								
Exhibition facility operations	130,682	-	-	130,682	126,778	-	-	126,778
Research and conservation activities	15,325	-	-	15,325	14,307	-	-	14,307
Educational programs	2,492	-	-	2,492	2,447	-	-	2,447
Administration	13,254	-	-	13,254	13,877	-	-	13,877
Total expenses	161,753	-	-	161,753	157,409	-	-	157,409
Excess revenues over expenses before other income (expense)	6,714	3,900	1,094	11,708	14,782	(5,507)	174	9,449
Investment income	1,654	14	-	1,668	486	5	-	491
Net realized gains	8,500	-	-	8,500	5,714	-	-	5,714
Net unrealized gains (losses)	(2,732)	-	-	(2,732)	6,297	-	-	6,297
Interest expense	(1,738)	-	-	(1,738)	(596)	-	-	(596)
Total	\$ 12,398	3,914	1,094	\$ 17,406	\$ 26,683	(5,502)	174	\$ 21,355
<b>Reconciliation of changes in net assets</b>								
Net assets at beginning of year	\$ 164,770	27,096	15,567	\$ 207,433	\$ 139,561	32,598	15,393	\$ 187,552
Excess revenues over expenses	12,398	3,914	1,094	17,406	26,683	(5,502)	174	21,355
Change in minimum pension liability	(2,553)	-	-	(2,553)	504	-	-	504
Unrealized loss on swap transaction	(132)	-	-	(132)	(1,978)	-	-	(1,978)
Total	\$ 174,483	31,010	16,661	\$ 222,154	\$ 164,770	27,096	15,567	\$ 207,433

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows

Years Ended January 1, 2006 and January 2, 2005

*(In Thousands)*

	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
Cash flows from operating activities:		
Excess revenues over expenses	\$ 17,406	\$ 21,355
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	12,372	11,369
Provision for uncollectible receivables	20	30
Net realized gain on sale of investments	(8,500)	(5,714)
Net unrealized (gain) loss on investments	2,732	(6,297)
Investment earnings on bond construction fund	(891)	(263)
Net loss on disposal of property and equipment	308	37
Restricted contributions	(15,652)	(15,255)
Changes in operating assets and liabilities:		
Accounts receivable	(1,159)	3,170
Inventories	(137)	407
Prepaid expenses and other assets	395	(128)
Bequests and contributions receivable	(3,516)	8,852
Accounts payable and accrued expenses	2,227	170
Accrued salaries and salary-related expenses	(955)	(194)
Deferred support and revenue	547	1,047
Net cash provided by operating activities	5,197	18,586
Cash flows from investing activities:		
Proceeds from sale of marketable securities	35,076	58,055
Purchase of marketable securities	(34,076)	(60,168)
Investment in bond construction fund	-	(30,737)
Draws from bond construction fund	2,112	558
Purchase of property and equipment	(17,030)	(30,171)
Net cash used in investing activities	(13,918)	(62,463)
Cash flows from financing activities:		
Proceeds from line of credit	-	2,000
Payments on line of credit	(1,500)	(11,500)
Proceeds from bond issuance	-	44,289
Payments on note payable	(250)	(250)
Principal payments of capital lease obligations	(112)	(222)
Endowment contributions	1,094	174
Contributions for programs and capital improvements	14,558	15,081
Net cash provided by financing activities	13,790	49,572
Net increase in cash and cash equivalents	5,069	5,695
Cash and cash equivalents at beginning of year	38,439	32,744
Cash and cash equivalents at end of year	\$ 43,508	\$ 38,439
Supplemental schedule of noncash financing activities:		
Cash paid for interest during the year	\$ 1,976	\$ 1,098

*See accompanying notes.*

# Zoological Society of San Diego

## Notes to Financial Statements (All Dollar Amounts In Thousands)

January 1, 2006

### 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 worldwide research operations, referred to collectively as 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, 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.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### **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 1, 2006 included 52 weeks and has been designated as Fiscal 2005 in the accompanying financial statements. The fiscal year ended January 2, 2005 included 53 weeks and has been designated as Fiscal 2004 in the accompanying financials 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 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.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### **1. Summary of Significant Accounting Policies (continued)**

#### **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.

#### **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.

#### **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.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### **1. Summary of Significant Accounting Policies (continued)**

#### **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.

#### **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 as annual rent in 2005 and 2004.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### **1. Summary of Significant Accounting Policies (continued)**

#### **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.

#### **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 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 2005 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. The valuation of the swap resulted in an unrealized loss of \$132 and \$1,978 for 2005 and 2004, respectively. The losses on interest rate swap are included in net unrealized gains (losses) 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.

# 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.

#### **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>2005</u>	<u>2004</u>
Trade receivables	\$ 1,802	\$ 1,461
Other receivables	1,409	621
Allowance for doubtful accounts	(20)	(30)
Net accounts receivable	<u>\$ 3,191</u>	<u>\$ 2,052</u>

#### 3. Inventories

A summary of inventories at year end is as follows:

	<u>2005</u>	<u>2004</u>
Merchandise	\$ 2,257	\$ 2,221
Food service	603	508
Animal food and other	180	174
Total inventories	<u>\$ 3,040</u>	<u>\$ 2,903</u>

#### 4. Investments

Investments, which are primarily in equity securities, totaled \$85,150 and \$80,382 at year end 2005 and 2004, respectively. Investments are recorded at fair market value. Included in investments is a cumulative unrealized gain at year end 2005 and 2004 of \$15,934 and \$18,666, respectively. The unrealized gain (loss) on forward exchange contracts totaled \$959 and (\$979) at year end 2005 and 2004, 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.

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

#### 5. Bequests and Donations Receivable (continued)

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

	2005	2004
Within one year	\$ 697	\$ 540
In more than five years	22,932	19,573
	23,629	20,113
Allowance for uncollectible amounts	(250)	(250)
Net bequests and donations receivable	\$ 23,379	\$ 19,863

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. 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 2005 and 2004. 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:

	2005	2004
Buildings, exhibits and improvements	\$ 226,475	\$ 208,163
Transportation and equipment	45,933	45,025
Construction in progress	10,150	13,920
	282,558	267,108
Less accumulated depreciation and amortization	(144,270)	(133,170)
Net property and equipment	\$ 138,288	\$ 133,938

Property and equipment includes capitalized interest of \$276 and \$443 for the years ended 2005 and 2004, respectively. The estimate to complete the construction in progress is approximately \$45,000 as of year end 2005.

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

#### **6. Property and Equipment (continued)**

At year end 2004, capital lease obligations secured by equipment had a net book value of \$464 and accumulated amortization of \$568. All capital leases were paid in full in 2005.

#### **7. Debt**

##### Tax-Exempt Bonds

In June 2004, the Society issued \$45,000 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 (3.3% at 2005 year end), 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. At 2005 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 2005, the Society holds approximately \$29,221 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 \$10,000. 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 2005, the outstanding balance of \$6,525 bears interest at rates ranging from 4.7% to 6.0% with an overall effective rate of 4.9%. 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 2005. At year-end 2005, the Society has outstanding letters of credit for \$1,153 under this agreement. The letter of credit reduces the amount available for borrowing.

# 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 7 years. The outstanding principal balance totaled \$1,250 at year end 2005.

Principal debt payments are as follows:

2006	\$ 6,775
2007	1,000
2008	1,000
2009	1,000
2010	1,000
Thereafter	42,000
	<u>\$ 52,775</u>

#### Capital Lease Obligations

All capital leases were paid in full in 2005.

### 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 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)

*(All Dollar Amounts In Thousands)*

#### 9. Temporarily and Permanently Restricted Net Assets

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

	<b>Temporarily Restricted</b>	
	<b>2005</b>	<b>2004</b>
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 1,780	\$ 404
Wild Animal Park exhibits and equipment	3,840	4,404
Veterinary equipment	151	610
Other capital	500	486
Total restricted for capital investment	6,271	5,904
Restricted for programs:		
Panda research	881	910
Education	287	220
Conservation and research	114	186
Other programs	78	13
Total restricted for programs	1,360	1,329
Bequests and contributions receivable	23,379	19,863
Total temporarily restricted net assets	\$ 31,010	\$ 27,096
	<b>Permanently Restricted</b>	
	<b>2005</b>	<b>2004</b>
Endowments:		
CRES	\$ 12,010	\$ 11,166
Education	2,722	2,722
Steel Foundation – Director’s endowment	1,929	1,679
Total permanently restricted net assets	\$ 16,661	\$ 15,567

#### 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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

**10. Pension and Benefit Plans (continued)**

The following table sets forth the plans' funded status based on the latest actuarial report (as of December 31, 2005) and the accrued benefit cost recognized in the Society's statements of financial position:

	<b>2005</b>	<b>2004</b>
Plan assets at fair value	<b>\$ 59,653</b>	\$ 54,775
Projected benefit obligation	<b>(76,980)</b>	(69,218)
Funded status	<b><u><u>\$ (17,327)</u></u></b>	<u><u>\$ (14,443)</u></u>

Weighted-average assumptions:

Discount rate	<b>5.8%</b>	6.0%
Expected return on plan assets	<b>9.0%</b>	9.0%
Rate of compensation increase	<b>3.0%</b>	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.

The following table sets forth benefit cost and benefits paid:

	<b>2005</b>	<b>2004</b>
Benefit cost	<b>\$ 2,621</b>	\$ 2,751
Benefits paid	<b>\$ 2,341</b>	\$ 1,624
Employer contributions	<b><u><u>\$ 4,338</u></u></b>	<u><u>\$ 3,976</u></u>

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### 10. Pension and Benefit Plans (continued)

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

	<u>2005</u>	<u>2004</u>
Intangible pension asset	<u>\$ 1,873</u>	<u>\$ 2,054</u>
Accrued benefit cost	<u>\$ 4,708</u>	<u>\$ 6,424</u>
Additional minimum liability	<u>\$ 6,132</u>	<u>\$ 3,760</u>

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:

2006	\$ 1,933
2007	1,917
2008	2,054
2009	2,183
2010	2,284
2011-2015	<u>17,063</u>
	<u>\$ 27,434</u>

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 \$722 and \$719 for the years ended 2005 and 2004, respectively.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts In Thousands)*

### 11. Commitments and Contingencies

There has been substantial publicity regarding a highly pathogenic strain of avian influenza, known as H5N1, which has been affecting Asia since 2002 and which has recently been found in Africa and Europe. Discovery of the highly pathogenic strain of H5N1 Avian Influenza overseas, coupled with the strong probability that it will migrate to the United States indicates a probable threat to the Society's avian collection and certain of its mammal collections. Costs incurred in 2005 to study and prepare a defense against the virus have already been charged to expense. In addition, the Society has provided a contingent liability of \$1,000 as of December 31, 2005 for additional costs, recognizing that events already in progress will almost certainly cause the incurrence of at least that amount of cost by the Society in combating the virus.

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 \$940 and \$820 for the years ended 2005 and 2004, respectively. Minimum lease payments under these agreements are as follows:

2006	\$	959
2007		822
2008		759
2009		761
2010		825
Thereafter		571
	\$	<u>4,697</u>