

FINANCIAL STATEMENTS

Zoological Society of San Diego

Fiscal Years 2006 and 2005

Zoological Society of San Diego

Financial Statements

Fiscal Years 2006 and 2005

**Contents**

Report of Independent Auditors.....	1
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets .....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5

## 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 31, 2006 and January 1, 2006, 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 31, 2006 and January 1, 2006, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 23, 2007

Zoological Society of San Diego

Statements of Financial Position

(In Thousands)

	<b>December 31, 2006</b>	<b>January 1, 2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 47,707	\$ 43,508
Bond construction fund	17,479	29,221
Accounts receivable, net	10,038	3,191
Inventories	3,163	3,040
Prepaid expenses and other assets	3,672	3,595
Investments	97,250	85,150
Bequests and contributions receivable	31,742	23,379
Property and equipment, net	155,982	138,288
Total assets	<u>\$ 367,033</u>	<u>\$ 329,372</u>
Accounts payable and accrued expenses	\$ 16,806	\$ 17,456
Accrued salaries and salary-related expenses	19,416	23,614
Deferred support and revenue	15,253	13,373
Current debt	6,037	6,775
Long-term debt	45,113	46,000
Total liabilities	<u>102,625</u>	<u>107,218</u>
Net assets:		
Unrestricted	193,494	174,483
Temporarily restricted	53,201	31,010
Permanently restricted	17,713	16,661
Total net assets	<u>264,408</u>	<u>222,154</u>
Total liabilities and net assets	<u>\$ 367,033</u>	<u>\$ 329,372</u>

See accompanying notes.

# Zoological Society of San Diego

## Statements of Activities and Changes in Net Assets

Years Ended December 31, 2006 (Fiscal 2006) and January 1, 2006 (Fiscal 2005)  
(In Thousands)

	Fiscal 2006				Fiscal 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Admissions and memberships	\$ 60,258	-	-	\$ 60,258	\$ 59,473	-	-	\$ 59,473
Auxiliary activities	83,031	-	-	83,031	77,739	-	-	77,739
Contributions	3,248	31,686	1,052	35,986	9,066	14,558	1,094	24,718
Grant revenue for services	3,878	-	-	3,878	4,127	-	-	4,127
Tax revenue and other	8,562	-	-	8,562	7,404	-	-	7,404
Net assets released from restriction	9,519	(9,519)	-	-	10,658	(10,658)	-	-
Total revenues and support	168,496	22,167	1,052	191,715	168,467	3,900	1,094	173,461
Expenses:								
Exhibition facility operations	135,079	-	-	135,079	130,682	-	-	130,682
Research and conservation activities	14,094	-	-	14,094	15,325	-	-	15,325
Educational programs	2,758	-	-	2,758	2,492	-	-	2,492
Administration	12,581	-	-	12,581	13,254	-	-	13,254
Total expenses	164,512	-	-	164,512	161,753	-	-	161,753
Excess revenues over expenses before other income (expense)	3,983	22,167	1,052	27,202	6,714	3,900	1,094	11,708
Investment income	2,665	24	-	2,689	1,654	14	-	1,668
Net realized gains	5,319	-	-	5,319	8,500	-	-	8,500
Net unrealized gains (losses)	6,093	-	-	6,093	(2,732)	-	-	(2,732)
Interest expense	(1,740)	-	-	(1,740)	(1,738)	-	-	(1,738)
Total	3,983	22,167	1,052	27,202	6,714	3,900	1,094	11,708
Excess revenues over expenses	\$ 16,320	22,191	1,052	\$ 39,563	\$ 12,398	3,914	1,094	\$ 17,406
<b>Reconciliation of changes in net assets</b>								
Net assets at beginning of year	\$ 174,483	31,010	16,661	\$ 222,154	\$ 164,770	27,096	15,567	\$ 207,433
Excess revenues over expenses	16,320	22,191	1,052	39,563	12,398	3,914	1,094	17,406
Change in minimum pension liability	2,134	-	-	2,134	(2,553)	-	-	(2,553)
Unrealized gain (loss) on swap transaction	557	-	-	557	(132)	-	-	(132)
Total	\$ 193,494	53,201	17,713	\$ 264,408	\$ 174,483	31,010	16,661	\$ 222,154

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows

Years Ended December 31, 2006 (Fiscal 2006) and January 1, 2006 (Fiscal 2005)  
(In Thousands)

	<b>Fiscal 2006</b>	<b>Fiscal 2005</b>
Cash flows from operating activities:		
Excess revenues over expenses	\$ 39,563	\$ 17,406
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	12,475	12,372
Provision for uncollectible receivables	20	20
Net realized gain on sale of investments	(5,319)	(8,500)
Net unrealized (gain) loss on investments	(6,093)	2,732
Investment earnings on bond construction fund	(1,296)	(891)
Net loss on disposal of property and equipment	247	308
Restricted contributions	(32,738)	(19,239)
Changes in operating assets and liabilities:		
Accounts receivable	(6,867)	(1,159)
Inventories	(123)	(137)
Prepaid expenses and other assets	(133)	395
Bequests and contributions receivable	2,306	71
Accounts payable and accrued expenses	(93)	2,227
Accrued salaries and salary-related expenses	(1,883)	(955)
Deferred support and revenue	1,880	547
Net cash provided by operating activities	<u>1,946</u>	<u>5,197</u>
Cash flows from investing activities:		
Proceeds from sale of marketable securities	37,982	35,076
Purchase of marketable securities	(38,670)	(34,076)
Draws from bond construction fund	13,038	2,112
Purchase of property and equipment	(30,416)	(17,030)
Net cash used in investing activities	<u>(18,066)</u>	<u>(13,918)</u>
Cash flows from financing activities:		
Payments on line of credit	(1,500)	(1,500)
Payments on note payable	(250)	(250)
Principal payments of capital lease obligations	-	(112)
Endowment contributions	1,052	1,094
Contributions for programs and capital improvements	21,017	14,558
Net cash provided by financing activities	<u>20,319</u>	<u>13,790</u>
Net increase in cash and cash equivalents	4,199	5,069
Cash and cash equivalents at beginning of year	43,508	38,439
Cash and cash equivalents at end of year	<u>\$ 47,707</u>	<u>\$ 43,508</u>
Supplemental schedule of noncash financing activities:		
Cash paid for interest during the year	\$ 2,087	\$ 1,976
Capital equipment financing	\$ 125	\$ -

See accompanying notes.

# Zoological Society of San Diego

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

December 31, 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.

#### **Accounting Period**

The Society reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended December 31, 2006 included 52 weeks and has been designated as Fiscal 2006 in the accompanying financial statements. The fiscal year ended January 1, 2006 included 52 weeks and has been designated as Fiscal 2005 in the accompanying financial statements.

#### **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.

# Zoological Society of San Diego

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

December 31, 2006

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

- 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. 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.

#### **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 *(All Dollar Amounts In Thousands)*

December 31, 2006

### **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.

#### **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 (All Dollar Amounts In Thousands)

December 31, 2006

### **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 2006 and 2005.

#### **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 2006 and 2005.

#### **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 (All Dollar Amounts In Thousands)

December 31, 2006

### **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 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 \$30,000 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 2006 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 gain of \$557 in 2006 and an unrealized loss of \$(132) in 2005, respectively. Gains and losses on interest rate swap are included in net unrealized gains (losses) on the statement of activities. As of year end 2006, the accumulated net unrealized loss totaled \$(1,553). 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 (All Dollar Amounts In Thousands)

December 31, 2006

### 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.

#### New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The statement requires the overfunded or underfunded status of a defined benefit postretirement plan to be recorded as an asset or liability in the statement of financial position and to recognize changes in the funded status in the year in which the changes occur through changes in unrestricted net assets, including the gains or losses and prior service costs or credits and the transition asset or obligation remaining from the initial application of SFAS 87, *Employers' Accounting for Pensions*, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements in our 2006 year-end balance sheet. SFAS 158 also requires us to measure the funded status of our Plans as of our year-end balance sheet date no later than 2008. The Society does not expect

# Zoological Society of San Diego

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

December 31, 2006

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

the impact of the change in measurement date to have a material impact on our financial statements.

In September 2006, the FASB issued FAS 157, *Fair Value Measurements*. 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 our 2008 fiscal year), although earlier application is encouraged. The Society has not yet evaluated the impact of adopting SFAS 157 on its financial statements; however, the Society expects the impact of adoption of this standard will not be material on its results of operations and financial position.

#### **Advertising Costs**

Advertising costs are expensed as incurred and amounted to \$7,892 and \$7,159 for the 2006 and 2005, 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 (All Dollar Amounts In Thousands)

December 31, 2006

### 2. Accounts Receivable

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

	<u>2006</u>	<u>2005</u>
Trade receivables	\$ 4,327	\$ 1,802
Tax revenue receivable	4,700	–
Other receivables	1,033	1,409
Allowance for doubtful accounts	(22)	(20)
Net accounts receivable	<u>\$ 10,038</u>	<u>\$ 3,191</u>

### 3. Inventories

A summary of inventories at year end is as follows:

	<u>2006</u>	<u>2005</u>
Merchandise	\$ 2,359	\$ 2,257
Food service	610	603
Animal food and other	194	180
Total inventories	<u>\$ 3,163</u>	<u>\$ 3,040</u>

Zoological Society of San Diego

Notes to Financial Statements  
(All Dollar Amounts In Thousands)

December 31, 2006

**4. Investments**

Investments, which are primarily in equity securities, totaled \$97,250 and \$85,150 at year end 2006 and 2005, respectively. Investments are recorded at fair market value. Included in investments is a cumulative unrealized gain at year end 2006 and 2005 of \$22,027 and \$15,934, respectively. The unrealized gain (loss) on forward exchange contracts totaled \$(432) and \$959 at year end 2006 and 2005, respectively. Total unrealized gain and losses on investments are as follows:

<b>December 31, 2006</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Equity Investments	\$ 75,223	\$ 23,007	\$ (980)	\$ 97,250

  

<b>January 1, 2006</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Equity Investments	\$ 69,216	\$ 16,597	\$ (663)	\$ 85,150

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 31, 2006:

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
Equity securities	\$ 3,699	\$ (398)	\$ 3,103	\$ (582)

# Zoological Society of San Diego

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

December 31, 2006

### 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>2006</u>	<u>2005</u>
Within one year	\$ 6,104	\$ 697
In more than five years	<u>25,888</u>	<u>22,932</u>
	<b>31,992</b>	23,629
Allowance for uncollectible amounts	<u>(250)</u>	<u>(250)</u>
Net bequests and donations receivable	<u><b>\$ 31,742</b></u>	<u>\$ 23,379</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 5.3% for the years ended 2006 and 2005. 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 (All Dollar Amounts In Thousands)

December 31, 2006

### 6. Property and Equipment

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

	<u>2006</u>	<u>2005</u>
Buildings, exhibits and improvements	\$ 230,740	\$ 226,475
Transportation and equipment	46,902	45,933
Construction in progress	<u>32,239</u>	<u>10,150</u>
	<b>309,881</b>	282,558
Less accumulated depreciation and amortization	<u>(153,899)</u>	<u>(144,270)</u>
Net property and equipment	<u><b>\$ 155,982</b></u>	<u>\$ 138,288</u>

Property and equipment includes capitalized interest of \$653 and \$276 for the years ended 2006 and 2005, respectively. The estimate to complete the construction in progress is approximately \$30,000 as of year end 2006.

There were no capital leases outstanding at year end 2005. In 2006, the Society entered into a lease agreement to finance a large equipment purchase. At year end 2006, the equipment had not yet been received and no payments on the lease had been made.

### 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 (3.73% at 2006 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 2006 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 2006, the Society holds \$17,479 in a bond construction fund restricted for improvements of its facilities at the Wild Animal Park.

# Zoological Society of San Diego

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

December 31, 2006

### **7. Debt (continued)**

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 2006 and 2005, the unamortized balances of the issuance costs were \$653 and \$677, respectively.

#### 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 2006, the outstanding balance of \$5,025 bears interest at rates ranging from 6.11% to 6.13% with an overall effective rate of 6.12%. 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 2006. At year-end 2006, the Society has outstanding letters of credit for \$953 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 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 \$1,000 at year end 2006.

#### Capital Lease Obligations

There were no capital leases outstanding at year end 2005. In 2006, the Society entered into a lease agreement to finance a large equipment purchase for \$125 of which \$113 is included in long-term debt and \$12 is classified as current debt on the statement of financial position. At year end 2006, the equipment had not yet been received and no payments on the lease had been made.

# Zoological Society of San Diego

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

December 31, 2006

### 7. Debt (continued)

Principal debt payments are as follows:

2007	\$ 6,037
2008	1,015
2009	1,015
2010	1,015
2011	1,010
Thereafter	41,058
	<u>\$ 51,150</u>

### 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  
(All Dollar Amounts In Thousands)

December 31, 2006

**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>2006</b>	<b>2005</b>
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 15,450	\$ 1,780
Wild Animal Park exhibits and equipment	4,287	3,840
Other capital	474	651
Total restricted for capital investment	<b>20,211</b>	6,271
Restricted for programs:		
Panda research	616	881
Education	250	287
Conservation and research	162	114
Other programs	220	78
Total restricted for programs	<b>1,248</b>	1,360
Bequests and contributions receivable	<b>31,742</b>	23,379
Total temporarily restricted net assets	<b>\$ 53,201</b>	<b>\$ 31,010</b>
	<b>Permanently Restricted</b>	
	<b>2006</b>	<b>2005</b>
Endowments:		
CRES	\$ 12,021	\$ 12,010
Education	2,722	2,722
Steel Foundation – Director’s endowment	1,929	1,929
Wegeforth Fund	1,041	–
Total permanently restricted net assets	<b>\$ 17,713</b>	<b>\$ 16,661</b>

# Zoological Society of San Diego

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

December 31, 2006

### 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).

The following table sets forth the plans' funded status under Statement of Financial Accounting Standard No. 87 (SFAS 87) and the accrued benefit cost recognized in the Society's statements of financial position:

	<u>2006</u>	<u>2005</u>
Plan assets at fair value	\$ <b>68,977</b>	\$ 59,653
Projected benefit obligation	<b>(77,855)</b>	(76,980)
Funded status	<u><u>\$ (8,878)</u></u>	<u><u>\$(17,327)</u></u>

Weighted-average assumptions:

Discount rate	6.15%	5.8%
Expected return on plan assets	8.8%	9.0%
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  
(All Dollar Amounts In Thousands)

December 31, 2006

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

The following table sets forth benefit cost and benefits paid:

	<u>2006</u>	<u>2005</u>
Benefit cost	\$ 2,687	\$ 2,621
Benefits paid	\$ 1,976	\$ 2,341
Employer contributions	\$ 5,867	\$ 4,338

The Society expects to make a total of \$3.6 million in pension contributions during fiscal year 2007.

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

	<u>2006</u>	<u>2005</u>
Intangible pension asset	\$ 1,692	\$ 1,873
Accrued benefit cost	\$ 1,287	\$ 4,708
Additional minimum liability	\$ 3,817	\$ 6,132

Benefit payments are expected to be paid as follows:

2007	\$ 2,040
2008	2,177
2009	2,273
2010	2,291
2011	2,425
2012-2015	19,679
	<u>\$ 30,885</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 which allows for employer matching contributions to eligible employees. Employer matching contributions totaled \$757 and \$722 for the years ended 2006 and 2005, respectively.

# Zoological Society of San Diego

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

December 31, 2006

### **11. Collective Bargaining Agreement**

At December 31, 2006, approximately 1,300 employees or 68% of total employees as December 31, 2006 were represented by a labor union. The Society is a party to a collective bargaining agreement with a labor union. The agreement expires in February 2009.

### **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 \$943 and \$940 for the years ended 2006 and 2005, respectively. Minimum lease payments under these agreements are as follows:

2007	\$	877
2008		814
2009		785
2010		723
2011		548
Thereafter		23
		<hr/>
	\$	<u>3,770</u>