

FINANCIAL STATEMENTS

Zoological Society of San Diego  
Fiscal Years 2007 and 2006

Zoological Society of San Diego

Financial Statements

Fiscal Years 2007 and 2006

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## Report of Independent Auditors

The Board of Trustees  
Zoological Society of San Diego

We have audited the accompanying statements of financial position of the Zoological Society of San Diego (the Society) as of December 30, 2007 and December 31, 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 30, 2007 and December 31, 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.

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

*Ernst & Young LLP*

April 24, 2008

# Zoological Society of San Diego

## Statements of Financial Position

	<b>December 30, 2007</b>	<b>December 31, 2006</b>
<i>(In Thousands)</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 57,667	\$ 47,707
Bond construction fund	–	17,479
Accounts receivable, net	6,678	10,038
Inventories	3,313	3,163
Prepaid expenses and other assets	3,797	5,747
Investments	96,427	97,250
Bequests and contributions receivable	44,435	31,742
Property and equipment, net	174,883	153,907
Total assets	\$ 387,200	\$ 367,033
Accounts payable and accrued expenses	\$ 15,801	\$ 16,806
Accrued salaries and salary-related expenses	23,410	19,416
Deferred support and revenue	16,455	15,253
Current debt	4,500	6,025
Capital leases	329	125
Long-term debt	44,000	45,000
Total liabilities	104,495	102,625
Net assets:		
Unrestricted	193,103	193,494
Temporarily restricted	69,717	53,201
Permanently restricted	19,885	17,713
Total net assets	282,705	264,408
Total liabilities and net assets	\$ 387,200	\$ 367,033

*See accompanying notes.*

# Zoological Society of San Diego

## Statements of Activities and Changes in Net Assets

Years Ended December 30, 2007 (Fiscal 2007) and December 31, 2006 (Fiscal 2006)

(In Thousands)

	Fiscal 2007				Fiscal 2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Exhibition facilities:								
Admissions and memberships	\$ 63,124	\$ -	\$ -	\$ 63,124	\$ 60,258	\$ -	\$ -	\$ 60,258
Auxiliary activities	86,951	-	-	86,951	83,031	-	-	83,031
Contributions	1,918	30,622	2,172	34,712	3,248	31,686	1,052	35,986
Grant revenue for services	4,166	-	-	4,166	3,878	-	-	3,878
Tax revenue and other	12,557	-	-	12,557	8,562	-	-	8,562
Net assets released from restriction	14,689	(14,689)	-	-	9,519	(9,519)	-	-
Total revenues and support	183,405	15,933	2,172	201,510	168,496	22,167	1,052	191,715
Expenses:								
Exhibition facility operations	144,095	-	-	144,095	135,079	-	-	135,079
Research and conservation activities	15,515	-	-	15,515	14,094	-	-	14,094
Educational programs	3,244	-	-	3,244	2,758	-	-	2,758
Administration	15,822	-	-	15,822	12,582	-	-	12,582
Total expenses	178,676	-	-	178,676	164,513	-	-	164,513
Excess revenues over expenses before other income (expense)	4,729	15,933	2,172	22,834	3,983	22,167	1,052	27,202
Investment income	1,575	583	-	2,158	2,665	24	-	2,689
Net realized gains	4,914	-	-	4,914	5,319	-	-	5,319
Net unrealized gains (losses)	(2,965)	-	-	(2,965)	6,093	-	-	6,093
Interest expense	(1,552)	-	-	(1,552)	(1,740)	-	-	(1,740)
Excess revenues over expenses	\$ 6,701	\$ 16,516	\$ 2,172	\$ 25,389	\$ 16,320	\$ 22,191	\$ 1,052	\$ 39,563
<b>Reconciliation of changes in net assets</b>								
Net assets at beginning of year	\$ 193,494	\$ 53,201	\$ 17,713	\$ 264,408	\$ 174,483	\$ 31,010	\$ 16,661	\$ 222,154
Excess revenues over expenses	6,701	16,516	2,172	25,389	16,320	22,191	1,052	39,563
Changes in unrestricted net assets arising from defined benefit plans but not yet included in periodic benefit cost	(6,160)	-	-	(6,160)	2,134	-	-	2,134
Unrealized gain (loss) on swap transaction	(932)	-	-	(932)	557	-	-	557
Net assets at end of year	\$ 193,103	\$ 69,717	\$ 19,885	\$ 282,705	\$ 193,494	\$ 53,201	\$ 17,713	\$ 264,408

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows

Years Ended December 30, 2007 (Fiscal 2007) and December 31, 2006 (Fiscal 2006)

	Fiscal 2007	Fiscal 2006
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Excess revenues over expenses	\$ 25,389	\$ 39,563
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,790	12,475
Provision for uncollectible receivables	26	20
Net realized gain on sale of investments	(4,914)	(5,319)
Net unrealized (gain) loss on investments	2,965	(6,093)
Investment earnings on bond construction fund	(222)	(1,296)
Net loss on disposal of property and equipment	679	247
Restricted contributions	(32,794)	(32,738)
Changes in operating assets and liabilities:		
Accounts receivable	3,334	(6,867)
Inventories	(150)	(123)
Prepaid expenses and other assets	133	(133)
Bequests and contributions receivable	6,884	2,306
Accounts payable and accrued expenses	(1,937)	(93)
Accrued salaries and salary-related expenses	(474)	(1,883)
Deferred support and revenue	1,202	1,880
Net cash provided by operating activities	13,911	1,946
<b>Investing activities</b>		
Proceeds from sale of marketable securities	41,591	37,982
Purchase of marketable securities	(38,819)	(38,670)
Draws from bond construction fund	17,701	13,038
Purchase of property and equipment	(35,090)	(30,416)
Net cash used in investing activities	(14,617)	(18,066)
<b>Financing activities</b>		
Payments on line of credit	(1,525)	(1,500)
Payments on note payable	(250)	(250)
Payments on bonds payable	(750)	-
Principal payments of capital lease obligations	(26)	-
Endowment contributions	2,172	1,052
Contributions for programs and capital improvements	11,045	21,017
Net cash provided by financing activities	10,666	20,319
Net increase in cash and cash equivalents	9,960	4,199
Cash and cash equivalents at beginning of year	47,707	43,508
Cash and cash equivalents at end of year	\$ 57,667	\$ 47,707
<b>Supplemental schedule of noncash financing activities</b>		
Cash paid for interest during the year	\$ 2,048	\$ 2,087
Capital equipment financing	\$ 230	\$ 125

See accompanying notes.

# Zoological Society of San Diego

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

December 30, 2007

### 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 30, 2007 included 52 weeks and has been designated as Fiscal 2007 in the accompanying financial statements. The fiscal year ended December 31, 2006 included 52 weeks and has been designated as Fiscal 2006 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 (continued)

*(All Dollar Amounts in Thousands)*

### **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 (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts represents our best estimate of uncollectible accounts receivable based on historical experience. Write-offs are deducted from the allowance for doubtful accounts and subsequent recoveries are added.

#### **Investments**

Investments with readily determinable fair values are measured at fair value in the 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 three to 25 years. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

#### **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 2007 and 2006.

#### **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 2007 and 2006.

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

Substantially all of the Society's interest bearing debt carries a floating interest rate. Therefore, in the normal course of business the Society is exposed to changes in short-term interest rates that can create uncertainty and variability in its cash flows. To mitigate this exposure, in June 2004, the Society entered into a 30-year interest rate swap agreement converting a notional \$30,000 of floating-rate debt into fixed-rate debt that currently bears interest at 3.905%. After giving effect to this interest rate swap, approximately one-third of the Society's outstanding interest-bearing debt carries a floating interest rate and the other two-thirds is effectively at fixed rates at 2007 year-end.

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

Changes in the fair market value of the interest rate swap are reported as unrealized gain or loss on interest rate swaps on the statement of activities. The valuation of the swap resulted in an unrealized loss of \$932 in 2007 and an unrealized gain of \$557 in 2006, respectively. Gains and losses on interest rate swaps are included in net unrealized gains (losses) on the statement of activities. As of year-end 2007, the accumulated net unrealized loss totaled \$2,484. 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.

### **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.

# Zoological Society of San Diego

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

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

#### New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. This interpretation is effective for fiscal years beginning after December 15, 2006, and the Society has adopted this interpretation for the year ended December 30, 2007. FIN 48 did not have a material effect on the Society’s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 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 the Society’s 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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (beginning with the Society’s 2008 fiscal year). The Society has not yet evaluated the impact of adopting SFAS 159 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 \$8,024 and \$7,892 for 2007 and 2006, respectively.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

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

#### 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.

### 2. Accounts Receivable

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

	<u>2007</u>	<u>2006</u>
Trade receivables	\$ 2,473	\$ 4,327
Tax revenue receivable	–	4,700
Grant receivables	1,206	1,033
Receivable from insurance (Note 12)	3,000	–
Allowance for doubtful accounts	(1)	(22)
Net accounts receivable	<u>\$ 6,678</u>	<u>\$ 10,038</u>

### 3. Inventories

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

	<u>2007</u>	<u>2006</u>
Merchandise	\$ 2,471	\$ 2,359
Food service	658	610
Animal food and other	184	194
Total inventories	<u>\$ 3,313</u>	<u>\$ 3,163</u>

Zoological Society of San Diego

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

**4. Investments**

Investments, consisting primarily of equity securities, totaled \$96,427 and \$97,250 at year-end 2007 and 2006, respectively. Investments are recorded at fair market value. Included in investments is a cumulative net unrealized gain at year-end 2007 and 2006 of \$19,062 and \$22,027, respectively. The unrealized loss on forward exchange contracts totaled \$702 and \$432 at year-end 2007 and 2006, respectively. Total unrealized gain and losses on investments are as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 30, 2007</b>				
Equity Investments	\$ 77,365	\$ 22,182	\$ (3,120)	\$ 96,427
<b>December 31, 2006</b>				
Equity Investments	\$ 75,223	\$ 23,007	\$ (980)	\$ 97,250

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 30, 2007:

	<b>Less than 12 Months</b>		<b>More than 12 Months</b>	
	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>
Equity securities	\$ 25,275	\$ 2,944	\$ 72	\$ 176

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### 5. Bequests and Donations Receivable

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

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

	<u>2007</u>	<u>2006</u>
Within one year	\$ 3,823	\$ 6,104
In more than five years	40,862	25,888
	<u>44,685</u>	<u>31,992</u>
Allowance for uncollectible amounts	(250)	(250)
Net bequests and donations receivable	<u>\$ 44,435</u>	<u>\$ 31,742</u>

Bequests and donations receivable are primarily comprised of split-interest agreements consisting of pooled-income funds, irrevocable trusts, charitable remainder trusts and charitable gift annuities. Due to the nature of these items, it is difficult to estimate the time frame during which these will be collected. Consequently, all bequests receivable after one year are shown as collectible in more than five years. Pooled income funds and charitable remainder trusts that are expected to be collected in more than one year have been recorded at net present value, calculated using a discount rate of 4.8% and 5.3% for the years ended 2007 and 2006, respectively. For charitable gift annuities and irrevocable trusts, the assets are recorded at fair value. A liability is then recorded for charitable gift annuities for the amount of the annuity payments that must be paid by the Society to the donor based on the actuarial life of the donor. The difference between the recorded asset and the liability is recorded as an adjustment to the statement of activities for the given year.

## Zoological Society of San Diego

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

#### 6. Property and Equipment

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

	<u>2007</u>	<u>2006</u>
Buildings, exhibits and improvements	\$ 274,952	\$ 230,740
Transportation and equipment	48,913	46,902
Construction in progress	11,742	30,164
	<u>335,607</u>	307,806
Less accumulated depreciation and amortization	<u>(160,724)</u>	(153,899)
Net property and equipment	<u>\$ 174,883</u>	\$ 153,907

Property and equipment includes capitalized interest of \$1,210 and \$653 for the years ended 2007 and 2006, respectively.

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

#### 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 2007 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 2007 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 2007, the Society had fully utilized the bond proceeds.

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### **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 2007 and 2006, the unamortized balances of the issuance costs were \$629 and \$653, 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, 2008, 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 2007, the outstanding balance of \$3,500 bears interest at 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 2007. At year-end 2007, the Society has outstanding letters of credit for \$953 under this agreement. The letter of credit reduces the amount available for borrowing.

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

#### **Note Payable**

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

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### 7. Debt (continued)

Principal debt payments are as follows:

2008	\$ 4,500
2009	1,000
2010	1,000
2011	995
2012	1,040
Thereafter	39,965
	<u>\$ 48,500</u>

#### Capital Lease Obligations

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

Minimum lease payments are as follows:

2008	\$ 112
2009	112
2010	92
2011	33
2012	16
	<u>365</u>
Imputed interest	36
Net present value	<u>\$ 329</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 (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>2007</b>	<b>2006</b>
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 21,197	\$ 15,450
Wild Animal Park exhibits and equipment	2,094	4,287
Other capital	702	474
Total restricted for capital investment	<u>23,993</u>	20,211
Restricted for programs:		
Panda research	581	616
Education	349	250
Conservation and research	187	162
Other programs	172	220
Total restricted for programs	<u>1,289</u>	1,248
Bequests and contributions receivable	44,435	31,742
Total temporarily restricted net assets	<u>\$ 69,717</u>	<u>\$ 53,201</u>

	<b>Permanently Restricted</b>	
	<b>2007</b>	<b>2006</b>
Endowments:		
CRES	\$ 12,502	\$ 12,021
Education	2,722	2,722
Steel Foundation – Director’s endowment	1,929	1,929
Wegeforth Fund	2,732	1,041
Total permanently restricted net assets	<u>\$ 19,885</u>	<u>\$ 17,713</u>

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### 10. Pension and Benefit Plans

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

Effective January 1, 2007, the Society adopted Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS 158, the Society is required to recognize the overfunded or underfunded status of its defined pension plans as an asset or liability in its statements of financial position and to recognize changes in that funded status in the year in which the changes occur as changes in unrestricted net assets arising from defined benefits plans but not yet included in net periodic benefit cost in the statement of changes in net assets. At year-end 2007, the Society's defined benefit plans were collectively underfunded by \$7,263. The incremental effect of the initial adoption of SFAS 158 reduced net assets at year end 2007 by \$8,486.

The funding status of the Society's pension plans in Fiscal 2007 and Fiscal 2006 was as follows:

	<b>2007</b>	<b>2006</b>
Plan assets at fair value	\$ <b>72,628</b>	\$ 68,977
Projected benefit obligation	<b>(79,891)</b>	(77,855)
Funded status	<b>\$ (7,263)</b>	\$ (8,878)
Accumulated benefit obligation	<b>\$ 71,444</b>	\$ 69,525
 Weighted-average assumptions:		
Discount rate	<b>6.5%</b>	6.15%
Expected return on plan assets	<b>8.25%</b>	8.8%
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

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

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

expected return on plan assets reflects the average rate of earnings that the Society estimates will be generated on the assets of the plans. The rate of compensation increase reflects the Society's best estimate of the future compensation levels of the individual employees covered by the plans.

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

The following table shows the asset allocation percentages for pension investments at year-end 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equity securities	<b>80%</b>	92%
Debt securities	<b>19%</b>	–
Cash and cash equivalents	<b>1%</b>	8%
	<b><u>100%</u></b>	<u>100%</u>

The following table sets forth benefit cost and benefits paid:

	<u>2007</u>	<u>2006</u>
Benefit cost	<b>\$ 3,285</b>	\$ 2,687
Benefits paid	<b>\$ 2,106</b>	\$ 1,976
Employer contributions	<b>\$ 5,000</b>	\$ 5,867

Net prior service cost amortization of \$303 was recorded as pension expense for 2007. Prior service cost of \$2,121 and an actuarial net loss of \$6,364 was recognized in unrestricted net assets at year end 2007. The Society expects to record \$303 of net prior service cost amortization in 2008.

The Society expects to make a total of \$5.0 million in pension contributions during fiscal year 2008.

# Zoological Society of San Diego

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

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

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

	<u>2007</u>	<u>2006</u>
Intangible pension asset	\$ -	\$ 1,692
Accrued benefit cost	<u>\$ 7,263</u>	<u>\$ 1,287</u>
Additional minimum liability	<u>\$ -</u>	<u>\$ 3,817</u>

Benefit payments are expected to be paid as follows:

2008	\$ 2,326
2009	2,311
2010	2,407
2011	2,528
2012	2,802
2013-2015	<u>23,203</u>
	<u>\$ 35,577</u>

The Society also maintains a 403(b) defined contribution plan, covering employees who meet certain age and service requirements. Eligible employees may contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations. The 403(b) defined contribution plan allows for employer matching contributions to eligible employees. Employer matching contributions totaled \$884 and \$757 for the years ended 2007 and 2006, respectively.

### 11. Collective Bargaining Agreement

The Society is a party to a collective bargaining agreement with a labor union. The agreement expires in February 2009. At December 30, 2007, there were 1,380 employees or approximately 63% of total employees represented by a labor union.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

### 12. Insurance Recovery

In October 2007, the Society incurred losses at its Wild Animal Park facility due to a fire. The fire damaged and destroyed fixed assets and impaired operations. Many of the assets were fully depreciated. An insurance claim was submitted and the Society received amounts totaling \$3,000 in 2008 which was recorded as a receivable as of year-end 2007. Losses and expenses totaling \$1,100 were recorded in Exhibition facility operations and a \$1,900 gain was recorded in tax revenue and other on the statement of activities. The Society anticipates recovering additional amounts from the insurance claim; however, the total amount of the insurance recovery has not been determined as of the report date.

### 13. Commitments and Contingencies

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

The Society has entered into certain noncancelable lease agreements for a warehouse facility and office space as well as noncancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense was \$1,010 and \$943 for the years ended 2007 and 2006, respectively. Minimum lease payments under these agreements at December 30, 2007 are as follows:

2008	\$ 1,058
2009	1,020
2010	1,048
2011	762
2012	80
Thereafter	—
	<u>\$ 3,968</u>