

FINANCIAL STATEMENTS

Zoological Society of San Diego  
Fiscal Years 2010 and 2009  
With Report of Independent Auditors

Ernst & Young LLP



Zoological Society of San Diego

Financial Statements

Fiscal Years 2010 and 2009

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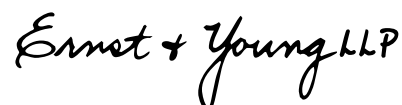
## Report of Independent Auditors

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 ZSSD) as of January 2, 2011 and December 27, 2009, 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 ZSSD'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 ZSSD'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 ZSSD's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Zoological Society of San Diego at January 2, 2011 and December 27, 2009, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

April 27, 2011

Zoological Society of San Diego

Statements of Financial Position

	January 2, 2011	December 27, 2009
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 36,318	\$ 42,871
Accounts receivable, net	4,344	3,129
Inventories	2,756	3,017
Prepaid expenses and other assets	4,117	4,348
Investments	87,272	83,285
Bequests and contributions receivable, net	39,323	42,211
Property and equipment, net	197,185	205,343
Total assets	<u>\$ 371,315</u>	<u>\$ 384,204</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 16,637	\$ 17,868
Accrued salaries and salary-related expenses	15,006	14,951
Deferred support and revenue	14,748	12,771
Liability for pension benefits	42,533	34,605
Line of credit	13,100	15,500
Note payable	—	250
Bonds payable	42,000	42,750
Capital leases	111	134
Total liabilities	<u>144,135</u>	<u>138,829</u>
Net assets:		
Unrestricted	147,683	164,410
Temporarily restricted	49,891	51,814
Permanently restricted	29,606	29,151
Total net assets	<u>227,180</u>	<u>245,375</u>
Total liabilities and net assets	<u>\$ 371,315</u>	<u>\$ 384,204</u>

*See accompanying notes.*

## Zoological Society of San Diego

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

	Year Ended January 2, 2011 (Fiscal 2010)				Year Ended December 27, 2009 (Fiscal 2009)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Exhibition facilities:								
Admissions and memberships	\$ 69,879	\$ -	\$ -	\$ 69,879	\$ 64,812	\$ -	\$ -	\$ 64,812
Auxiliary activities	86,295	-	-	86,295	79,933	-	-	79,933
Contributions	6,980	10,009	455	17,444	8,743	5,452	3,557	17,752
Grant revenue for services	6,528	-	-	6,528	6,086	-	-	6,086
Tax revenue and other	19,199	-	-	19,199	19,875	-	-	19,875
Net assets released from restriction	15,404	(15,404)	-	-	24,700	(24,700)	-	-
Total revenues and support	204,285	(5,395)	455	199,345	204,149	(19,248)	3,557	188,458
Expenses:								
Exhibition facility operations	165,367	-	-	165,367	155,537	-	-	155,537
Research and conservation activities	18,286	-	-	18,286	18,430	-	-	18,430
Educational programs	3,727	-	-	3,727	2,775	-	-	2,775
Administration	19,802	-	-	19,802	17,722	-	-	17,722
Total expenses	207,182	-	-	207,182	194,464	-	-	194,464
(Deficiency) excess revenues over								
expenses before other income (expense)	(2,897)	(5,395)	455	(7,837)	9,685	(19,248)	3,557	(6,006)
Investment income	6,512	3,472	-	9,984	18,409	1,249	-	19,658
Change in split-interest	(67)	-	-	(67)	(116)	-	-	(116)
Interest expense	(1,796)	-	-	(1,796)	(1,096)	-	-	(1,096)
Unrealized (loss) gain on swap transaction	(1,149)	-	-	(1,149)	4,141	-	-	4,141
(Deficiency) excess revenues over expenses	\$ 603	\$ (1,923)	\$ 455	\$ (865)	\$ 31,023	\$ (17,999)	\$ 3,557	\$ 16,581
<b>Reconciliation of changes in net assets</b>								
Net assets at beginning of year	\$ 164,410	\$ 51,814	\$ 29,151	\$ 245,375	\$ 125,622	\$ 69,813	\$ 25,594	\$ 221,029
(Deficiency) excess revenues over expenses	603	(1,923)	455	(865)	31,023	(17,999)	3,557	16,581
Pension-related changes other than net periodic pension cost	(17,330)	-	-	(17,330)	7,765	-	-	7,765
Net assets at end of year	\$ 147,683	\$ 49,891	\$ 29,606	\$ 227,180	\$ 164,410	\$ 51,814	\$ 29,151	\$ 245,375

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows

Years Ended January 2, 2011 (Fiscal 2010) and December 27, 2009 (Fiscal 2009)

	Fiscal 2010	Fiscal 2009
	(In Thousands)	
<b>Operating activities</b>		
(Deficiency) excess revenues over expenses	\$ (865)	\$ 16,581
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	22,241	21,564
Provision for uncollectible receivables	21	20
Net realized (gain) loss on sale of investments, interest income and dividends	(3,584)	8,995
Net loss on bequests	67	116
Net unrealized (gain) loss on investments	(6,401)	(28,653)
Net loss (gain) on disposal of property and equipment	1	4
Unrealized (gain) loss on swap transaction	1,149	(4,141)
Noncash contributions	(1,004)	(3,610)
Restricted contributions	(10,464)	(9,009)
Changes in operating assets and liabilities:		
Accounts receivable	(1,236)	2,686
Inventories	261	(26)
Prepaid expenses and other assets	231	(453)
Bequests and contributions receivable	3,825	9,927
Accounts payable and accrued expenses	(2,380)	(1,518)
Accrued salaries and salary-related expenses	55	(559)
Liability for pension benefits	(9,402)	120
Deferred support and revenue	1,977	(1,406)
Net cash operating activities	(5,508)	10,638
<b>Investing activities</b>		
Proceeds from sale of marketable securities	50,321	41,105
Purchase of marketable securities	(44,323)	(39,498)
Purchase of property and equipment	(14,084)	(38,890)
Net cash used in investing activities	(8,086)	(37,283)
<b>Financing activities</b>		
(Payments) borrowings on line of credit	(2,400)	13,000
Payments on note payable and line of credit	(250)	(1,250)
Payments on bonds payable	(750)	(750)
Principal payments of capital lease obligations	(23)	(100)
Endowment contributions	455	3,557
Contributions for programs and capital improvements	10,009	5,452
Net cash provided by financing activities	7,041	19,909
Net decrease in cash and cash equivalents	(6,553)	(6,736)
Cash and cash equivalents at beginning of year	42,871	49,607
Cash and cash equivalents at end of year	\$ 36,318	\$ 42,871
<b>Supplemental schedule of noncash financing activities</b>		
Cash paid for interest during the year	\$ 1,989	\$ 1,706

See accompanying notes

# Zoological Society of San Diego

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

January 2, 2011

### **1. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

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

The ZSSD formed the ZSSD Foundation (the Foundation) in 2007. The Foundation is a related supporting organization, which conducts fund raising activities for the ZSSD. Funds raised by the Foundation are received directly by ZSSD and recorded as contribution revenue in the ZSSD’s statement of activities. The Foundation has no employees, and is supported by volunteers. The Foundation’s expenses are recorded in the ZSSD’s statement of activities.

#### **Accounting Period**

The ZSSD reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended January 2, 2011 included 53 weeks and has been designated as Fiscal 2010 in the accompanying financial statements. The fiscal year ended December 27, 2009 included 52 weeks and has been designated as Fiscal 2009 in the accompanying financial statements.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Fund Accounting and Net Asset Classification**

To ensure compliance with restrictions placed on the resources available to the ZSSD, the ZSSD'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 ZSSD to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by the ZSSD'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 ZSSD to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

#### **Revenue Recognition**

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

#### **Auxiliary Activities**

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Tax Revenue and Other**

Tax revenue and other includes city property tax allocation, revenues from advisory services, sponsorships, advertising and other miscellaneous 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 ZSSD shares animals with other organizations. Consistent with industry practice, the ZSSD does not record any asset or liability for such sharing arrangements, as generally these arrangements are without monetary consideration.

#### **Cash and Cash Equivalents**

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

#### **Accounts Receivable and Allowance for Doubtful Accounts**

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Investments**

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

#### **Concentration of Credit Risk**

The ZSSD invests its excess cash in various types of investments. The ZSSD 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 ZSSD's inventory is valued at the lower of cost or market, and accounted for using a weighted-average cost basis.

#### **Property and Equipment**

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

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

The ZSSD 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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

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 2010 and 2009.

#### **Donations and Bequests**

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

#### **Operating Agreements**

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

The San Diego Zoo operating agreement expires in 2034. The San Diego Zoo Safari 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 ZSSD paid \$140 as annual rent in 2010 and 2009, respectively.

#### **Income Taxes**

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

#### **Debt Issuance Costs**

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Interest Rate Swap**

The ZSSD 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 ZSSD 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 ZSSD'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 ZSSD's interest-bearing debt carries a floating interest rate. Therefore, in the normal course of business, the ZSSD 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 ZSSD 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%, covering approximately two-thirds of the outstanding debt. In May 2010, the ZSSD entered into another interest rate swap agreement converting the remaining one-third of outstanding floating-rate debt into fixed rate debt that bears interest at 2.81%. After giving effect to these interest rate swaps, the ZSSD's outstanding debt is effectively at fixed rates at 2010 year-end.

In November 2007, the ZSSD 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.

Changes in the fair market value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the statements of activities. The valuation of the swaps resulted in an unrealized loss of \$1,149 in 2010 and an unrealized gain of \$4,141 in 2009. As of year-end 2010, the accumulated net unrealized loss totaled \$5,253. Providing that the ZSSD holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rate at any time during the swap.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### Fair Value of Financial Instruments

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

- The carrying values of cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
- Investments are reported at fair value based on quoted market prices.
- 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.
- The carrying amount of the capital lease and line of credit obligations approximates fair value because the obligations are recorded at the net present value of future payments at market interest rates.

#### Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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

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

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

# Zoological Society of San Diego

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

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

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below,

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following tables provide the method used to fair value certain assets and liabilities as of January 2, 2011 and December 27, 2009. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Fair Value Measurements at Reporting Date Using				Valuation Techniques (a,b,c)
	Balance as of January 2, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>					
Cash, certificates of deposit, and money market mutual funds <sup>(1)</sup>	\$ 36,318	\$ 36,318	\$ -	\$ -	(a)
Investments available for sale including interest receivable	87,272	87,272	-	-	(a)
<b>Total assets</b>	<b>\$ 123,590</b>	<b>\$ 123,590</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Liabilities</b>					
Accumulated loss on interest rate swap <sup>(2)</sup>	\$ 5,253	\$ -	\$ 5,253	\$ -	(c)
<b>Total liabilities</b>	<b>\$ 5,253</b>	<b>\$ -</b>	<b>\$ 5,253</b>	<b>\$ -</b>	

# Zoological Society of San Diego

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

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

	Fair Value Measurements at Reporting Date Using				Valuation Techniques (a,b,c)
	Balance as of December 27, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>					
Cash, certificates of deposit, and money market mutual funds <sup>(1)</sup>	\$ 42,871	\$ 42,871	\$ -	\$ -	(a)
Investments available for sale including interest receivable	83,285	83,285	-	-	(a)
Total assets	<u>\$ 126,156</u>	<u>\$ 126,156</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Liabilities</b>					
Accumulated loss on interest rate swap <sup>(2)</sup>	\$ 4,104	\$ -	\$ 4,104	\$ -	(c)
Total liabilities	<u>\$ 4,104</u>	<u>\$ -</u>	<u>\$ 4,104</u>	<u>\$ -</u>	

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

<sup>(2)</sup> Included as a component of accounts payable and accrued expenses on accompanying statements of financial position.

### Recent Accounting Pronouncements

In May 2009, the FASB issued a new standard which establishes the framework for financial accounting and reporting for not-for-profit mergers and acquisitions and intangible assets. This new standard is effective for mergers and acquisitions on or after January 1, 2010. The adoption of ASC 958-805 did not have a material effect on the financial statements.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended ASC 820, *Fair Value Measurements and Disclosures*, to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. In addition, ASU 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities, and provides further

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

detail about inputs and valuation techniques used for fair value measurements. ZSSD adopted ASU 2010-06 in 2010, and the adoption did not have a material impact on the ZSSD's consolidated financial statements.

#### **Advertising Costs**

Advertising costs are expensed as incurred and amounted to \$6,612 and \$7,521 for 2010 and 2009, respectively.

#### **Contributed Services**

The ZSSD receives contributed services through various volunteer programs at the facilities and on certain conservation projects. Volunteers contributed approximately 80,000 hours in 2010. Contributed services through volunteers are not recorded in the statements of activities.

#### **Fundraising Expenses**

Fundraising expenses are included in administration expense in the statements of activities and amounted to \$4,317 and \$3,811 for 2010 and 2009, respectively.

#### **Use of Estimates**

In accordance with its established practices, management of the ZSSD 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 current year presentation.

#### **Subsequent Events**

In preparing the financial statements, the ZSSD evaluated subsequent events after the balance sheet date of January 2, 2011 through April 27, 2011, the date that these financial statements are issued.

## 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:

	<b>2010</b>	<b>2009</b>
Trade receivables	\$ 1,029	\$ 807
Grant receivables	2,541	1,472
Other	835	890
Allowance for doubtful accounts	(61)	(40)
Net accounts receivable	\$ 4,344	\$ 3,129

#### 3. Inventories

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

	<b>2010</b>	<b>2009</b>
Merchandise	\$ 1,723	\$ 1,984
Food service	828	824
Animal food and other	205	209
Total inventories	\$ 2,756	\$ 3,017

#### 4. Investments

Investments, stated at fair value, consist of the following:

	<b>2010</b>	<b>2009</b>
Fixed income securities	\$ 2,391	\$ 1,631
Mutual fund – equity	11,335	7,065
Marketable equity securities	72,329	73,704
Commodities and other	1,217	885
Investments included in current assets	\$ 87,272	\$ 83,285

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### 4. Investments (continued)

Investment assets are not specifically limited in use by the Board or Trustees of the ZSSD.

Investment income consists of the following:

	<b>2010</b>	<b>2009</b>
Interest income and dividends	\$ <b>1,872</b>	\$ 1,893
Net realized gain (loss)	<b>2,553</b>	(10,106)
Net unrealized gain	<b>6,401</b>	28,653
Investment advisory and custodial fees	<b>(842)</b>	(782)
	<b>\$ 9,984</b>	\$ 19,658

#### 5. Bequests and Contributions Receivable

Bequests and contributions receivable are primarily comprised of bequest agreements, which include pooled-income funds, irrevocable trusts, charitable remainder trusts and charitable gift annuities; and pledged gift agreements, which are unconditional promises to give. Bequests and contributions of private support are recorded as revenue upon the receipt of the unconditional promise to give. The ZSSD believes that certain bequests and contributions receivable may not be collected due to a variety of circumstances and has provided an allowance for such amounts.

Bequests and contributions receivable consist of the following:

	<b>2010</b>	<b>2009</b>
Bequest agreements:		
Pooled-income funds	\$ <b>7,957</b>	\$ 9,345
Irrevocable trusts	<b>5,050</b>	4,987
Charitable remainder trusts	<b>12,054</b>	12,573
Charitable gift annuities	<b>4,066</b>	3,472
Pledged gift agreements	<b>10,446</b>	12,085
	<b>39,573</b>	42,461
Allowance for uncollectible amounts	<b>(250)</b>	(250)
Net bequests and contributions receivable	<b>\$ 39,323</b>	\$ 42,211

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

Due to the nature of bequest agreements, 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, irrevocable trusts 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 3.22% and 3.26% for the years ended 2010 and 2009, respectively. Split-interest agreements, such as charitable gift annuities, the ZSSD receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime or lifetimes of the donor or other beneficiaries. Upon the death of the annuitant or survivor of the annuitants, the ZSSD is entitled to full use of the remainder. For charitable gift annuities, 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 ZSSD to the donor based on the actuarial life of the donor. Obligations to beneficiaries under split-interest agreements are included in accounts payable and accrued expenses in the statements of financial position and totaled \$2,781 and 2,472 at year-end 2010 and 2009, respectively. The difference between the recorded asset and the liability is recorded as change in split-interest on the statement of activities for the given year. Pledged gift agreements are unconditional promises to give. Certain pledges are spread over several years with specific terms of when amounts will be received.

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

2011	\$ 6,000
2012	5,438
2013	288
2014	40
2015	—
In more than five years	<u>35,994</u>
	47,760
Unamortized discount	<u>(8,187)</u>
Net present value	39,573
Allowance for uncollectible accounts	<u>(250)</u>
Net bequests and contributions receivable	<u>\$ 39,323</u>

## 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>2010</u>	<u>2009</u>
Buildings, exhibits, and improvements	\$ 366,444	\$ 360,412
Transportation and equipment	35,762	34,158
Construction in progress	8,343	3,224
	<u>410,549</u>	397,794
Less accumulated depreciation and amortization	<u>(213,364)</u>	<u>(192,451)</u>
Net property and equipment	<u>\$ 197,185</u>	<u>\$ 205,343</u>

Property and equipment includes capitalized interest of \$2,429 and \$2,345 for the years ended 2010 and 2009, respectively.

Capital lease obligations, included in transportation and equipment, are secured by equipment with a gross cost of \$275 at year-end 2010 and 2009. Accumulated amortization related to leased assets was \$49 and \$204 at year-end 2010 and 2009, respectively.

#### 7. Debt

##### Tax-Exempt Bonds

In June 2004, the ZSSD issued \$45,000 of tax-exempt variable rate demand bonds through the Association of Bay Area Governments in the State of California for the construction of improvements of its facilities at the Safari Park and for the repayment of short-term debt. Interest on the bonds (0.40% and 0.27% at year-end 2010 and 2009, respectively) is adjusted through a weekly remarketing process in the tax-exempt bond market. The bonds are secured by a standby letter of credit that is guaranteed by the ZSSD, collateralized by the assets of the ZSSD and subject to certain restrictive covenants. In the event of a failure in the remarketing process, the standby letter of credit can be drawn upon to pay the principal of the bonds. In the event of such a failure and subsequent draw upon the line of credit, the ZSSD may be required to repay the then outstanding principal over a time period of less than a year. The included debt repayment schedule assumes payments under the original contract terms. At year-end 2010, the ZSSD was in compliance with all financial covenants under the debt agreement. The bonds mature October 1, 2034. Interest is payable monthly. Principal payments began October 1, 2007, and are based on an amortization schedule.

# 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 2010 and 2009, the unamortized balances of the issuance costs were \$558 and \$582, respectively.

### **Line of Credit**

The ZSSD has an unsecured financing agreement with its primary bank that permits multiple borrowings, at variable rates of interest, up to \$10,000. The financing agreement, which expires on December 1, 2011, provides that the ZSSD 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 2010 and 2009, the outstanding balance of \$3,500, bears interest at 1.52% and 1.47%, respectively. Interest payments are required to be made monthly. The line of credit contains certain covenants with which the ZSSD was in full compliance at year-end 2010 and 2009. At year-end 2010 and 2009, the ZSSD has outstanding letters of credit for \$953 under this agreement. The letters of credit reduce the amount available for borrowing.

On October 30, 2007, the ZSSD 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.

In 2009, \$13,000 of the credit facility was utilized for the construction of exhibition facilities and other improvements covered by specific pledges of future donations. Funds collected from specific pledges will be utilized for repayment of this credit facility. At year-end 2010 and 2009, the balances of the credit facility were \$9,600 and \$12,000, respectively. Interest is payable monthly. Principal payments are fully due by December 30, 2012.

# 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 ZSSD 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 Safari Park. The note payable bears a 7% interest rate and is payable in annual installments over seven years. The outstanding principal balance totaled \$0 and \$250 at year-end 2010 and 2009, respectively.

Principal debt payments are as follows:

2011	\$	6,595
2012		8,540
2013		1,090
2014		1,140
2015		1,195
Thereafter		36,540
	\$	<u>55,100</u>

#### Capital Lease Obligations

The ZSSD has capital lease obligations with interest rates ranging from 6.00% to 7.10%. The weighted-average interest rate of all lease obligations is 6.46%.

Minimum lease payments are as follows:

2011	\$	78
2012		39
		<u>117</u>
Imputed interest		(6)
Net present value	\$	<u>111</u>

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

**8. Temporarily and Permanently Restricted Net Assets**

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

	<b>2010</b>	<b>2009</b>
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 832	\$ 2,815
San Diego Zoo Safari Park exhibits and equipment	4,228	3,513
Other capital	389	173
Total restricted for capital investment	<u>5,449</u>	<u>6,501</u>
Restricted for programs:		
Facility programs	227	768
Education	1,669	1,442
Conservation and research	3,157	2,985
Total restricted for programs	<u>5,053</u>	<u>5,195</u>
Temporarily restricted portion of donor-restricted endowments	2,847	379
Bequests and contributions receivable, net of obligations to beneficiaries under split-interest agreements	36,542	39,739
Total temporarily restricted net assets	<u>\$ 49,891</u>	<u>\$ 51,814</u>

Permanently restricted net assets are restricted for the following purposes:

	<b>2010</b>	<b>2009</b>
Institute for Conservation Research	\$ 21,902	\$ 21,572
Education	2,822	2,822
Steel Foundation – Director’s endowment	1,979	1,979
Wegeforth Fund	2,903	2,778
Total permanently restricted net assets	<u>\$ 29,606</u>	<u>\$ 29,151</u>

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

### **8. Temporarily and Permanently Restricted Net Assets (continued)**

Endowment Funds: The ZSSD's endowment funds were established by donor-restricted contributions to provide a permanent endowment, which is to provide a permanent source of income. The portion of a permanent endowment that must be maintained permanently – not used, expended, or otherwise exhausted – is classified as permanently restricted assets. In addition, the Board has earmarked a portion of the ZSSD's unrestricted net assets as board-designated endowment funds to be invested to provide income for a long but unspecified period. These designations include a fund for the Institute for Conservation Research to provide for conservation and research of rare and endangered species. In addition, the Board has designated amounts for an emergency reserve and a strategic reserve. The emergency reserve is to provide for unexpected or unanticipated expenditures when other sources of funds are not available. The strategic reserve is to provide for future operating needs. The board-designated endowment funds, which result from an internal designation, are not donor restricted and are classified as unrestricted net assets.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the ZSSD to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets unless the income of such assets are restricted to use in which case such amounts are reflected in temporarily restricted net assets. There was no deficiency at year-end 2010 and 2009.

Interpretation of Relevant Law: The ZSSD has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the ZSSD classifies as permanently restricted net assets (1) the original value of the gifts donated to permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the ZSSD considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the ZSSD and the donor-restricted endowment fund

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

#### **8. Temporarily and Permanently Restricted Net Assets (continued)**

3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the ZSSD
7. The ZSSD's investment policy

Return Objectives and Risk Parameters: The ZSSD has adopted investment and spending policies for endowment assets that is meant to ensure that the endowment's purchasing power is maintained over time by keeping the long-term rate of annual spending from the endowment equal to or less than the long-term real (inflation-adjusted) investment return of the endowment fund. Endowment assets include those assets of donor-restricted funds that the ZSSD must hold in perpetuity or for a donor specified period as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested to attain an annual rate of total return exceeding the S&P 500 Total Return. This return (net of investment management fees) is expected to be in excess of the annual set spending rate over the long term. An annual withdrawal target of 5% of the fund's value, based generally on an expected annual total return of approximately 8%, offset by estimated inflation of 3%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: The ZSSD's target asset allocation is for 75% to 95% of the funds to be invested in public equity securities or equity mutual funds, of which not less than 50% of the portfolio placed in less than investment grade securities, defined as securities having a Standard & Poor's rating of less than a B+ rating.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

**8. Temporarily and Permanently Restricted Net Assets (continued)**

The endowment net asset composition by type of fund as of January 2, 2011, consists of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 2,847	\$ 29,606	\$ 32,453
Board-designated endowment funds	56,794	—	—	56,794
Total funds	<u>\$ 56,794</u>	<u>\$ 2,847</u>	<u>\$ 29,606</u>	<u>\$ 89,247</u>

The changes in endowment net assets for the fiscal year ended 2010, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 56,277	\$ 379	\$ 29,151	\$ 85,807
Investment return:				
Investment income	1,097	658	—	1,755
Net appreciation (realized and unrealized)	5,298	2,815	—	8,113
Total investment return	6,395	3,473	—	9,868
Contributions	—	—	455	455
Appropriation of endowment assets for expenditure	(5,878)	(1,005)	—	(6,883)
Endowment net assets, end of year	<u>\$ 56,794</u>	<u>\$ 2,847</u>	<u>\$ 29,606</u>	<u>\$ 89,247</u>

Zoological Society of San Diego

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

**8. Temporarily and Permanently Restricted Net Assets (continued)**

The endowment net asset composition by type of fund as of December 27, 2009, consists of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 379	\$ 29,151	\$ 29,530
Board-designated endowment funds	56,277	—	—	56,277
Total funds	<u>\$ 56,277</u>	<u>\$ 379</u>	<u>\$ 29,151</u>	<u>\$ 85,807</u>

The changes in endowment net assets for the fiscal year ended 2009, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 40,946	\$ —	\$ 25,594	\$ 66,540
Investment return:				
Investment income	1,072	507	—	1,579
Net appreciation (realized and unrealized)	17,000	1,642	—	18,642
Total investment return	18,072	2,149	—	20,221
Contributions	—	—	3,557	3,557
Appropriation of endowment assets for expenditure	(2,741)	(1,770)	—	(4,511)
Endowment net assets, end of year	<u>\$ 56,277</u>	<u>\$ 379</u>	<u>\$ 29,151</u>	<u>\$ 85,807</u>

**9. Pension and Benefit Plans**

The ZSSD 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 ZSSD's funding policy is to maintain asset balances equal to at least 80% of each plan's current liability as calculated under the Employee Retirement Income Security Act (ERISA).

## Zoological Society of San Diego

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

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

The ZSSD recognizes the overfunded or underfunded status of its defined pension plans as an asset or liability in its statements of financial position and recognizes 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 statements of changes in net assets.

The funding status of the ZSSD's pension plans was as follows:

	<b>2010</b>	<b>2009</b>
Plan assets at fair value	\$ <b>88,703</b>	\$ 67,889
Projected benefit obligation	<b>(131,236)</b>	(102,494)
Funded status	<b>\$ (42,533)</b>	\$ (34,605)
 Accumulated benefit obligation	<b>\$ 114,296</b>	\$ 90,988

Weighted-average assumptions:

	<b>2010</b>	<b>2009</b>
Discount rate	<b>5.5%</b>	6.0%
Expected return on plan assets	<b>7.5%</b>	7.5%
Rate of compensation increase	<b>3.0%</b>	3.0%

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 ZSSD estimates will be generated on the assets of the plans. The rate of compensation increase reflects the ZSSD'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 ZSSD's management and board investment committee monitor performance against benchmark indices.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

Return Objectives and Risk Parameters: The ZSSD has adopted investment policies for pension assets that is meant to provide funding for pension retirement payments to current and future retirees of the ZSSD's pension plans. The primary objectives are to maximize long-term growth and minimize risk of loss of principal. In addition, the ZSSD seeks to limit the year-to-year volatility of fluctuations in market valuations, which can impact the cash contributions required to maintain certain funding levels.

Strategies Employed for Achieving Objectives: To meet the objectives, the ZSSD maintains a diversified and balanced portfolio for pension investments. Equity investments range from 65% to 80% of the total portfolio, utilizing several investment advisors. Holdings include U.S. and foreign securities diversified across numerous industries. Debt investments range from 15% to 25% of the total portfolio. These include government and corporate debt securities. Investment policies prohibit more than 25% of the debt holdings to be less than investment grade rating.

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

	<u>2010</u>	<u>2009</u>
Equity securities	<b>76%</b>	76%
Debt securities	<b>16%</b>	14%
Cash and cash equivalents	<b>8%</b>	10%
	<b>100%</b>	100%

Zoological Society of San Diego

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

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

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below,

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following tables provide the method used to fair value certain assets and liabilities as of year-end 2010. Only assets measured at fair value are shown on the three-tier value hierarchy.

Pension assets measured at fair value on a recurring basis as of year-end 2010 are as follows:

	<b>Fair Value Measurements at Reporting Date Using</b>				
	<b>Balance</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Valuation Techniques (a,b,c)</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 6,678	\$ 6,678	\$ -	\$ -	(a)
Debt securities	14,619	-	14,619	-	(a)
Equity securities	67,406	67,406	-	-	(a)
Total assets	<u>\$ 88,703</u>	<u>\$ 74,084</u>	<u>\$ 14,619</u>	<u>\$ -</u>	

Zoological Society of San Diego

Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

The following table sets forth benefit cost and benefits paid:

	<b>2010</b>	<b>2009</b>
Benefit cost	<b>\$ 4,400</b>	\$ 3,970
Benefits paid	<b>\$ 2,542</b>	\$ 2,369
Administrative expenses paid	<b>\$ 107</b>	\$ 92
Employer contributions	<b>\$ 13,465</b>	\$ 3,981

Net prior service cost amortization of \$303 and net loss amortization of \$1,442 were recorded in pension expense for 2010. Prior service cost of \$8,796 and an actuarial net loss of \$37,563 were included in unrestricted net assets at year-end 2010. The ZSSD expects to record \$825 of net prior service cost amortization and \$1,587 of net loss amortization in 2011.

The ZSSD expects to make a total of \$4,400 in pension contributions during fiscal year 2011.

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

	<b>2010</b>	<b>2009</b>
Accrued benefit cost	<b>\$ 42,533</b>	\$ 34,605

Benefit payments are expected to be paid as follows:

2011	\$ 2,903
2012	3,053
2013	3,537
2014	4,054
2015	4,885
Thereafter	35,782
	<b>\$ 54,214</b>

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

Several amendments were made to the pension plans in 2010 and 2009 making modifications to certain section for clarification purposes and administrative changes to maintain compliance with pension regulations. In December 2010, an amendment was made in one of the plans related to the definition of hours worked for the calculation of pension liability.

The ZSSD 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 was temporarily suspended for 2009 and 2010.

### 10. Collective Bargaining Agreement

The ZSSD is a party to a collective bargaining agreement with a labor union. The agreement expires in February 2013. At year-end 2010, there were 1,555 employees or approximately 64% of total employees represented by a labor union.

### 11. Commitments and Contingencies

The ZSSD 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 ZSSD. The ZSSD 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 \$1,062 and \$1,220 for the years ended 2010 and 2009, respectively. Minimum lease payments under these agreements are as follows:

2011	\$ 1,364
2012	604
2013	276
2014	228
Thereafter	135
	<hr/>
	\$ 2,607

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