



FINANCIAL STATEMENTS

Zoological Society of San Diego  
Fiscal Years 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP



Zoological Society of San Diego

Financial Statements

Fiscal Years 2009 and 2008

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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 27, 2009 and December 28, 2008, 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 27, 2009 and December 28, 2008, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 30, 2010

# Zoological Society of San Diego

## Statements of Financial Position

	December 27, 2009      December 28, 2008	
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 42,871	\$ 49,607
Accounts receivable, net	3,129	5,835
Inventories	3,017	2,991
Prepaid expenses and other assets	4,348	3,882
Investments	83,285	64,358
Bequests and contributions receivable, net	42,211	49,533
Property and equipment, net	205,343	188,021
Total assets	\$ 384,204	\$ 364,227
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,868	\$ 23,527
Accrued salaries and salary-related expenses	14,951	15,510
Deferred support and revenue	12,771	14,177
Liability for pension benefits	34,605	42,250
Line of credit	15,500	3,500
Note payable	250	500
Bonds payable	42,750	43,500
Capital leases	134	234
Total liabilities	138,829	143,198
Net assets:		
Unrestricted	161,938	125,622
Temporarily restricted	54,286	69,813
Permanently restricted	29,151	25,594
Total net assets	245,375	221,029
Total liabilities and net assets	\$ 384,204	\$ 364,227

*See accompanying notes.*

# Zoological Society of San Diego

## Statements of Activities and Changes in Net Assets

	Year Ended December 27, 2009 (Fiscal 2009)				Year Ended December 28, 2008 (Fiscal 2008)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>				<i>(In Thousands)</i>			
Revenues and support:								
Exhibition facilities:								
Admissions and memberships	\$ 64,812	\$ -	\$ -	\$ 64,812	\$ 63,630	\$ -	\$ -	\$ 63,630
Auxiliary activities	85,352	-	-	85,352	86,250	-	-	86,250
Contributions	8,743	5,452	3,557	17,752	3,652	19,245	5,709	28,606
Grant revenue for services	5,263	-	-	5,263	4,387	-	-	4,387
Tax revenue and other	14,456	-	-	14,456	17,391	-	-	17,391
Net assets released from restriction	22,228	(22,228)	-	-	20,987	(20,987)	-	-
Total revenues and support	<u>200,854</u>	<u>(16,776)</u>	<u>3,557</u>	<u>187,635</u>	<u>196,297</u>	<u>(1,742)</u>	<u>5,709</u>	<u>200,264</u>
Expenses:								
Exhibition facility operations	155,537	-	-	155,537	149,567	-	-	149,567
Research and conservation activities	18,430	-	-	18,430	17,046	-	-	17,046
Educational programs	2,775	-	-	2,775	2,776	-	-	2,776
Administration	16,899	-	-	16,899	17,497	-	-	17,497
Total expenses	<u>193,641</u>	<u>-</u>	<u>-</u>	<u>193,641</u>	<u>186,886</u>	<u>-</u>	<u>-</u>	<u>186,886</u>
Excess (deficiency) of revenues over expenses before other income (expense)	7,213	(16,776)	3,557	(6,006)	9,411	(1,742)	5,709	13,378
Investment income	1,386	507	-	1,893	534	837	-	1,371
Net realized loss	(7,361)	(3,643)	-	(11,004)	(543)	(719)	-	(1,262)
Net unrealized gain (loss)	24,268	4,385	-	28,653	(28,580)	(5,207)	-	(33,787)
Interest expense	(1,096)	-	-	(1,096)	(1,325)	-	-	(1,325)
Unrealized gain (loss) on swap transaction	4,141	-	-	4,141	(5,760)	-	-	(5,760)
Excess (deficiency) of revenues over expenses	<u>\$ 28,551</u>	<u>\$ (15,527)</u>	<u>\$ 3,557</u>	<u>\$ 16,581</u>	<u>\$ (26,263)</u>	<u>\$ (6,831)</u>	<u>\$ 5,709</u>	<u>\$ (27,385)</u>
<b>Reconciliation of changes in net assets</b>								
Net assets at beginning of year	\$ 125,622	\$ 69,813	\$ 25,594	\$ 221,029	\$ 186,176	\$ 76,644	\$ 19,885	\$ 282,705
Excess (deficiency) of revenues over expenses	28,551	(15,527)	3,557	16,581	(26,263)	(6,831)	5,709	(27,385)
Pension-related changes other than net periodic pension cost	7,765	-	-	7,765	(34,291)	-	-	(34,291)
Net assets at end of year	<u>\$ 161,938</u>	<u>\$ 54,286</u>	<u>\$ 29,151</u>	<u>\$ 245,375</u>	<u>\$ 125,622</u>	<u>\$ 69,813</u>	<u>\$ 25,594</u>	<u>\$ 221,029</u>

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows

Years Ended December 27, 2009 (Fiscal 2009) and December 28, 2008 (Fiscal 2008)

	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Excess (deficiency) of revenues over expenses	\$ 16,581	\$ (27,385)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,564	16,787
Provision for uncollectible receivables	20	26
Net realized loss on sale of investments	9,111	749
Net unrealized (gain) loss on investments	(28,653)	33,787
Net loss (gain) on disposal of property and equipment	4	(59)
Unrealized (gain) loss on swap transaction	(4,141)	5,760
Noncash contributions	(3,610)	(9,520)
Restricted contributions	(9,009)	(15,434)
Changes in operating assets and liabilities:		
Accounts receivable	2,686	817
Inventories	(26)	322
Prepaid expenses and other assets	(453)	(85)
Bequests and contributions receivable	9,927	4,146
Accounts payable and accrued expenses	(1,518)	1,966
Accrued salaries and salary-related expenses	(439)	59
Deferred support and revenue	(1,406)	(2,278)
Net cash provided by operating activities	<u>10,638</u>	<u>9,658</u>
<b>Investing activities</b>		
Proceeds from sale of marketable securities	41,105	68,620
Purchase of marketable securities	(39,498)	(70,811)
Purchase of property and equipment	(38,890)	(29,866)
Net cash used in investing activities	<u>(37,283)</u>	<u>(32,057)</u>
<b>Financing activities</b>		
Borrowings on line of credit	13,000	-
Payments on note payable and line of credit	(1,250)	(250)
Payments on bonds payable	(750)	(750)
Principal payments of capital lease obligations	(100)	(95)
Endowment contributions	3,557	5,709
Contributions for programs and capital improvements	5,452	9,725
Net cash provided by financing activities	<u>19,909</u>	<u>14,339</u>
Net decrease in cash and cash equivalents	(6,736)	(8,060)
Cash and cash equivalents at beginning of year	49,607	57,667
Cash and cash equivalents at end of year	<u>\$ 42,871</u>	<u>\$ 49,607</u>
<b>Supplemental schedule of noncash financing activities</b>		
Cash paid for interest during the year	<u>\$ 1,706</u>	<u>\$ 1,686</u>

See accompanying notes

# Zoological Society of San Diego

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

December 27, 2009

### **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 Zoo's Wild Animal Park, and conducts conservation programs through its worldwide research operations, referred to collectively as San Diego Zoo's Institute for Conservation Research. 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 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 for Conservation Research is also home to the Frozen Zoo®, the world's largest collection of genetic and reproductive material from endangered animals.

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

#### **Accounting Period**

The Society reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended December 27, 2009 included 52 weeks and has been designated as Fiscal 2009 in the accompanying financial statements. The fiscal year ended December 28, 2008 included 52 weeks and has been designated as Fiscal 2008 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 Society, the Society's accounts are maintained in accordance with the principles of fund accounting, a procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics are combined into three net asset categories:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Society to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by the Society's expenditure for the specified purpose.
- Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the Society to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

#### **Revenue Recognition**

The Society 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 Society 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 Society's auxiliary activities include retail merchandise, food and beverage, transportation operations, Wild Animal 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)**

#### **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.

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

Accounts receivable consists of trade receivables and nontrade receivables. Trade receivables consist of outstanding balances from travel and tourism companies that purchase and then resell admission tickets to the Society's facilities. The allowance for doubtful accounts represents the Society'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.

#### **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.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

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

The Society invests its excess cash in various types of investments. The Society has established guidelines relative to diversification and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Short-term investments are only placed in investment grade money market instruments. Long-term funds held for reserves and endowments are invested through an independently managed equity portfolio.

#### **Inventories**

The Society's inventory is valued at the lower of cost or market, and accounted for using a weighted-average cost basis.

#### **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are generally from 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 2009 and 2008.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **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 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 \$140 and \$130 as annual rent in 2009 and 2008, respectively.

#### **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.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 740, *Income Taxes*. ASC 740 clarifies the accounting for uncertainty in income taxes and 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. The guidance is effective for fiscal years beginning after December 15, 2008, and the Society adopted this guidance on December 29, 2008. ASC 740 did not have a material effect on the Society's financial position, results of operations or cash flows.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

#### **Debt Issuance Costs**

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

#### **Interest Rate Swap**

The Society utilizes 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 2009 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.

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 gain of \$4,141 in 2009 and an unrealized loss of \$5,760 in 2008. As of year-end 2009, the accumulated net unrealized loss totaled \$4,104. Providing that the Society holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rate at any time during the swap.

# Zoological Society of San Diego

## Notes to Financial Statements (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 on a recurring basis as of December 27, 2009 are as follows:

	Fair Value Measurements at Reporting Date Using			
	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	\$ —	\$ —
Investments available for sale including interest receivable	83,285	83,285	—	—
Total assets	\$ 126,156	\$ 126,156	\$ —	\$ —
<b>Liabilities</b>				
Accumulated loss on interest- rate swaps <sup>(2)</sup>	\$ 4,104	\$ —	\$ 4,104	\$ —
Total liabilities	\$ 4,104	\$ —	\$ 4,104	\$ —

<sup>(1)</sup> Included as a component of cash and cash equivalents on accompanying statements of financial position. Balance includes a certificate of deposit of \$3.0 million which matures on January 19, 2010.

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

### New Accounting Pronouncements

Effective October 1, 2008, the Society adopted FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. FASB ASC 820 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, FASB ASC 820 does not require any new fair value measurements. The adoption of FASB ASC 820 did not have a material effect on the financial statements of the Society.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

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

Effective October 1, 2008, the Society adopted FASB ASC 825, *Financial Instruments*. FASB ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of FASB ASC 825 did not have a material effect on the financial statements of the Society, as management chose not to measure any financial instruments and certain other items at fair value that are not already required to be reported at fair value.

The FASB issued FASB ASC 958, *Not for Profit Entities*, which provides guidance on the net asset classification of donor-restricted endowment funds for the not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958 also improves disclosures about an organization's endowment funds, both donor-restricted and board-designated, whether or not the organization is subject to the UPMIFA. FASB ASC 958 was adopted by the Society in the fiscal year ending December 27, 2009, and the adoption did not have a material effect on the financial statements.

The Society adopted FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 is effective for interim or annual periods ending after June 15, 2009. The adoption of FASB ASC 855 did not have a material effect on the financial statements of the Society.

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 Society is currently evaluating the effect this new standard will have, if any, on its financial statements.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles*. FASB ASC 105 establishes the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of FASB ASC 105 did not have a material effect on the financial statements of the Society.

# Zoological Society of San Diego

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

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

#### Advertising Costs

Advertising costs are expensed as incurred and amounted to \$7,521 and \$7,716 for 2009 and 2008, respectively.

#### Use of Estimates

In accordance with its established practices, management of the Society has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities in order to prepare its financial statements in accordance with generally accepted accounting principles in the United States. Actual results could differ from these estimates.

#### Reclassifications

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

#### Subsequent Events

In preparing the financial statements, the Society evaluated subsequent events after the balance sheet date of December 27, 2009 through April 30, 2010, the date that these financial statements are issued.

### 2. Accounts Receivable

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

	<u>2009</u>	<u>2008</u>
Trade receivables	\$ 807	\$ 1,168
Tax revenue receivable	–	1,773
Grant receivables	1,472	805
Receivable from insurance (Note 13)	–	1,400
Other	890	709
Allowance for doubtful accounts	(40)	(20)
Net accounts receivable	<u>\$ 3,129</u>	<u>\$ 5,835</u>

Zoological Society of San Diego

Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

**3. Inventories**

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

	<b>2009</b>	<b>2008</b>
Merchandise	\$ 1,984	\$ 1,911
Food service	824	725
Animal food and other	209	355
Total inventories	\$ 3,017	\$ 2,991

**4. Investments**

Investments, consisting of equity securities, totaled \$83,285 and \$64,358 at year-end 2009 and 2008, respectively. Investments are recorded at fair market value. Included in investments is a cumulative net unrealized gain (loss) at year-end 2009 and 2008 of \$13,945 and \$(14,708), 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 27, 2009</b>				
Equity investments	\$ 69,340	\$ 14,517	\$ (572)	\$ 83,285
<b>December 28, 2008</b>				
Equity investments	\$ 79,066	\$ 3,626	\$ (18,334)	\$ 64,358

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 27, 2009:

	<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	\$ 83,285	\$ (572)	\$ -	\$ -

## 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>2009</u>	<u>2008</u>
Within one year	\$ 4,339	\$ 6,544
In more than five years	<u>38,122</u>	<u>43,239</u>
	<u>42,461</u>	<u>49,783</u>
Allowance for uncollectible amounts	(250)	(250)
Net bequests and donations receivable	<u>\$ 42,211</u>	<u>\$ 49,533</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 3.26% and 4.6% for the years ended 2009 and 2008, respectively. With charitable gift annuities, the Society 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 Society is entitled to full use of the remainder. 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>2009</u>	<u>2008</u>
Buildings, exhibits, and improvements	\$ 360,412	\$ 307,874
Transportation and equipment	34,158	29,966
Construction in progress	3,224	25,257
	<u>397,794</u>	363,097
Less accumulated depreciation and amortization	<u>(192,451)</u>	<u>(175,076)</u>
Net property and equipment	<u>\$ 205,343</u>	<u>\$ 188,021</u>

Property and equipment includes capitalized interest of \$2,345 and \$1,540 for the years ended 2009 and 2008, respectively.

Capital lease obligations, included in transportation and equipment, are secured by equipment with a gross cost of \$358 at year-end 2009 and 2008. Accumulated amortization related to leased assets was \$204 and \$117 at year-end 2009 and 2008, respectively.

#### 7. Debt

##### Tax-Exempt Bonds

In June 2004, the Society 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 Wild Animal Park and for the repayment of short-term debt. Interest on the bonds (0.27% and 1.00% at year-end 2009 and 2008, 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 Society, collateralized by the assets of the Society 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 Society 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 2009, the Society was in compliance with all financial covenants under the debt agreement. The bonds

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

mature October 1, 2034. Interest is payable monthly. Principal payments began October 1, 2007, and are based on an amortization schedule. At year-end 2008, the Society had fully utilized the bond proceeds.

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 2009 and 2008, the unamortized balances of the issuance costs were \$582 and \$605, respectively.

#### **Line of Credit**

The Society 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, 2010, 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 2009 and 2008, the outstanding balance of \$3,500 bears interest at 1.47% and 2.25%, respectively. 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 2009 and 2008. At year-end 2009 and 2008, the Society 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 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.

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 2009 and 2008, the balances of the credit facility were \$12,000 and \$0, 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 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 \$250 and \$500 at year-end 2009 and 2008, respectively.

Principal debt payments are as follows:

2010	\$	4,500
2011		5,495
2012		8,540
2013		1,090
2014		1,140
Thereafter		37,735
	\$	<u>58,500</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:

2010	\$	92
2011		33
2012		17
		<u>142</u>
Imputed interest		(8)
Net present value	\$	<u>134</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>2009</b>	<b>2008</b>
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 2,815	\$ 12,198
Wild Animal Park exhibits and equipment	3,513	3,675
Other capital	173	1,089
Total restricted for capital investment	<b>6,501</b>	16,962
Restricted for programs:		
Panda research	474	469
Education	1,442	711
Conservation and research	2,985	1,882
Other	294	256
Total restricted for programs	<b>5,195</b>	3,318
Temporarily restricted portion of donor-restricted endowments	379	–
Bequests and contributions receivable	42,211	49,533
Total temporarily restricted net assets	<b>\$ 54,286</b>	\$ 69,813

Permanently restricted net assets are available for the following purposes:

	<b>2009</b>	<b>2008</b>
Institute for Conservation Research	\$ 21,572	\$ 18,204
Education	2,822	2,722
Steel Foundation – Director’s endowment	1,979	1,929
Wegeforth Fund	2,778	2,739
Total permanently restricted net assets	<b>\$ 29,151</b>	\$ 25,594

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

ASC 958, *Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was enacted in California on September 30, 2008, and was adopted by the Society in fiscal 2009. The adoption of the enacted provisions of UPMIFA did not have a material impact on the financial statements of the Society.

Endowment Funds: The Society'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 up, expended, or otherwise exhausted – is classified as permanently restricted assets. In addition, the Board has earmarked a portion of the Society'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 Society 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 a deficiency of \$4,404 as of December 28, 2008 and no deficiency at December 27, 2009.

Interpretation of Relevant Law: The Society has interpreted the Uniform Management of Institutional Funds Act (UMIFA) 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 Society 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

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

*(All Dollar Amounts in Thousands)*

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

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 UMIFA. In accordance with UMIFA, the Society 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 Society and the donor-restricted endowment fund
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 Society
7. The Society's investment policy

Return Objectives and Risk Parameters: The Society 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 Society 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 Society'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 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>

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 28, 2008, consists of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (4,404)	\$ –	\$ 25,594	\$ 21,190
Board-designated endowment funds	45,350	–	–	45,350
<b>Total funds</b>	<b>\$ 40,946</b>	<b>\$ –</b>	<b>\$ 25,594</b>	<b>\$ 66,540</b>

The changes in endowment net assets for the fiscal year ended 2008, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 73,225	\$ 6,927	\$ 19,885	\$ 100,037
Investment return:				
Investment income	1,418	513	–	1,931
Net depreciation (realized and unrealized)	(30,411)	(5,926)	–	(36,337)
<b>Total investment return</b>	<b>(28,993)</b>	<b>(5,413)</b>	<b>–</b>	<b>(34,406)</b>
Contributions	–	–	5,709	5,709
Appropriation of endowment assets for expenditure	(3,286)	(1,514)	–	(4,800)
<b>Endowment net assets, end of year</b>	<b>\$ 40,946</b>	<b>\$ –</b>	<b>\$ 25,594</b>	<b>\$ 66,540</b>

**9. 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).

## Zoological Society of San Diego

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

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

The Society recognizes 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.

The funding status of the Society's pension plans in Fiscal 2009 and Fiscal 2008 was as follows:

	<b>2009</b>	<b>2008</b>
Plan assets at fair value	\$ <b>67,889</b>	\$ 51,509
Projected benefit obligation	<b>(102,494)</b>	(93,759)
Funded status	<b>\$ (34,605)</b>	\$ (42,250)
 Accumulated benefit obligation	 <b>\$ 90,988</b>	 \$ 83,311

Weighted-average assumptions:

	<b>2009</b>	<b>2008</b>
Discount rate	<b>6.0%</b>	6.5%
Expected return on plan assets	<b>7.5%</b>	8.25%
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 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.

Zoological Society of San Diego

Notes to Financial Statements (continued)

(All Dollar Amounts in Thousands)

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

The following table shows the asset allocation percentages for pension investments at year-end 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Equity securities	76%	72%
Debt securities	14%	12%
Cash and cash equivalents	10%	16%
	<u>100%</u>	<u>100%</u>

Pension assets measured at fair value on a recurring basis as of year-end 2009 are as follows:

	<u>Balance</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 6,790	\$ 6,790	\$ -	\$ -
Equity securities	51,595	51,595	-	-
Debt securities	9,504	-	9,504	-
	<u>\$ 67,889</u>	<u>\$ 58,385</u>	<u>\$ 9,504</u>	<u>\$ -</u>

The following table sets forth benefit cost and benefits paid:

	<u>2009</u>	<u>2008</u>
Benefit cost	\$ 3,970	\$ 3,253
Benefits paid	\$ 2,369	\$ 2,254
Administrative expenses paid	\$ 92	\$ 79
Employer contributions	<u>\$ 3,981</u>	<u>\$ 3,212</u>

# Zoological Society of San Diego

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

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

Net prior service cost amortization of \$303 and net loss amortization of \$2,225 were recorded in pension expense for 2009. Prior service cost of \$1,515 and an actuarial net loss of \$30,477 were included in unrestricted net assets at year-end 2009. The Society expects to record \$303 of net prior service cost amortization and \$1,316 of net loss amortization in 2010.

The Society expects to make a total of \$11,500 in pension contributions during fiscal year 2010.

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

	<u>2009</u>	<u>2008</u>
Accrued benefit cost	<u>\$ 34,605</u>	<u>\$ 42,250</u>

Benefit payments are expected to be paid as follows:

2010	\$ 2,655
2011	2,755
2012	2,892
2013	3,374
2014	3,942
2015 – 2018	<u>30,205</u>
	<u>\$ 45,823</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 was temporarily suspended for 2009 and 2010. Employer matching contributions totaled \$926 for the year ended 2008.

### 10. Collective Bargaining Agreement

The Society is a party to a collective bargaining agreement with a labor union. The agreement expires in February 2013. At year-end 2009, there were 1,446 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)*

### 11. Insurance Recovery

In October 2007, the Society incurred losses at its Wild Animal Park facility due to wildfires. The wildfire 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 \$4,900 of which \$1,400 and \$3,000 were recorded as a receivable as of year-end 2008 and 2007, respectively. 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 in 2007. The Society recorded additional losses and expenses of \$933 and a \$1,900 gain in 2008.

### 12. Commitments and Contingencies

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

The Society has entered into certain 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 \$1,220 and \$1,211 for the years ended 2009 and 2008, respectively. Minimum lease payments under these agreements are as follows:

2010	\$	1,254
2011		1,047
2012		292
2013		13
	\$	<u>2,606</u>

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