

FINANCIAL STATEMENTS

Zoological Society of San Diego

Fiscal Years 2003 and 2002 with Report of Independent Auditors

Zoological Society of San Diego

Financial Statements

Fiscal Years 2003 and 2002

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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 28, 2003 and December 29, 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 28, 2003 and December 29, 2002, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

April 16, 2004

Zoological Society of San Diego

Statements of Financial Position  
(in thousands)

	<b>December 28, 2003</b>	<b>December 29, 2002</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 32,744	\$ 28,351
Accounts receivable, less allowance for doubtful accounts	5,249	4,031
Inventories	3,310	4,013
Prepaid expenses and other assets	3,571	2,928
Investments	66,480	61,410
Bequests and donations receivable	28,438	18,700
Property and equipment, net	115,173	109,093
<b>Total assets</b>	<b>\$ 254,965</b>	<b>\$ 228,526</b>
<b>Liabilities and net assets</b>		
Accounts payable	\$ 13,378	\$ 10,186
Accrued salaries and expenses	23,076	15,067
Deferred support and revenue	11,350	10,716
Line of credit	17,525	14,525
Note payable	1,750	-
Capital lease obligations	334	579
<b>Total liabilities</b>	<b>67,413</b>	<b>51,073</b>
<b>Net assets:</b>		
Unrestricted	139,561	135,001
Temporarily restricted	32,598	27,700
Permanently restricted	15,393	14,752
<b>Total net assets</b>	<b>187,552</b>	<b>177,453</b>
<b>Total liabilities and net assets</b>	<b>\$ 254,965</b>	<b>\$ 228,526</b>

*See accompanying notes.*

# Zoological Society of San Diego

## Statements of Activities

(in thousands)

	Fiscal 2003				Fiscal 2002			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:								
Exhibition facilities:								
Admissions and memberships	\$ 55,096	\$ -	\$ -	\$ 55,096	\$ 56,610	\$ -	\$ -	\$ 56,610
Auxiliary activities	64,595	-	-	64,595	65,429	-	-	65,429
Tax revenue and other	6,146	-	-	6,146	5,491	-	-	5,491
Total exhibition facilities	125,837	-	-	125,837	127,530	-	-	127,530
Grants	4,366	-	-	4,366	4,159	-	-	4,159
Donations and bequests	6,633	16,851	641	24,125	6,315	9,570	809	16,694
Other revenue	241	-	-	241	420	-	-	420
	137,077	16,851	641	154,569	138,424	9,570	809	148,803
Net assets released from restrictions	11,958	(11,958)	-	-	11,933	(11,933)	-	-
Total revenues and other support	149,035	4,893	641	154,569	150,357	(2,363)	809	148,803
Expenses:								
Exhibition facility operations	126,906	-	-	126,906	119,384	-	-	119,384
Research and conservation activities	13,819	-	-	13,819	12,915	-	-	12,915
Educational programs	2,470	-	-	2,470	2,828	-	-	2,828
Administration and development	12,171	-	-	12,171	11,559	-	-	11,559
Pension expense	3,107	-	-	3,107	2,439	-	-	2,439
Total expenses	158,473	-	-	158,473	149,125	-	-	149,125
Change in net assets before other income (expense)	(9,438)	4,893	641	(3,904)	1,232	(2,363)	809	(322)
Other income (expense):								
Investment income	100	5	-	105	133	15	-	148
Net realized gain (loss) on investments	4,044	-	-	4,044	(672)	-	-	(672)
Net unrealized gain (loss) on investments	11,073	-	-	11,073	(13,816)	-	-	(13,816)
Interest expense	(302)	-	-	(302)	(488)	-	-	(488)
Change in net assets	5,477	4,898	641	11,016	(13,611)	(2,348)	809	(15,150)
Additional minimum pension liability	(917)	-	-	(917)	(1,293)	-	-	(1,293)
Net assets at beginning of year	135,001	27,700	14,752	177,453	149,905	30,048	13,943	193,896
Net assets at end of year	\$ 139,561	\$ 32,598	\$ 15,393	\$ 187,552	\$ 135,001	\$ 27,700	\$ 14,752	\$ 177,453

See accompanying notes.

# Zoological Society of San Diego

## Statements of Cash Flows (in thousands)

	<b>Fiscal 2003</b>	<b>Fiscal 2002</b>
Cash flows from operating activities:		
Change in net assets	\$ 11,016	\$ (15,150)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,751	11,418
Provision for uncollectible receivables	52	89
Donated assets	-	(533)
Net realized (gain) loss on sale of investments	(4,044)	672
Net unrealized (gain) loss on investments	(11,073)	13,816
Net loss on disposal of property and equipment	68	328
Restricted contributions	(7,492)	(10,379)
Changes in operating assets and liabilities:		
Accounts receivable	(1,218)	1,180
Inventories	703	219
Prepaid expenses and other assets	(654)	(101)
Bequests and donations receivable	(9,790)	283
Accounts payable	3,192	1,486
Accrued salaries and expenses	7,092	3,198
Deferred support and revenue	634	(2,261)
Net cash provided by operating activities	237	4,265
Cash flows from investing activities:		
Proceeds from sale of marketable securities	56,721	30,298
Purchase of marketable securities	(46,674)	(15,626)
Purchase of property and equipment	(17,888)	(7,236)
Net cash provided by (used in) investing activities	(7,841)	7,436
Cash flows from financing activities:		
Proceeds from line of credit	7,000	7,500
Payments on line of credit	(4,000)	(7,300)
Note payable proceeds	1,750	
Principal payments of capital lease obligations	(245)	(374)
Endowment contributions received	641	809
Contributions restricted for capital investment and programs	6,851	9,570
Net cash provided by financing activities	11,997	10,205
Net increase in cash and cash equivalents	4,393	21,906
Cash and cash equivalents at beginning of year	28,351	6,445
Cash and cash equivalents at end of year	\$ 32,744	\$ 28,351
Supplemental schedule of noncash financing activities:		
Cash paid for interest during the year	\$ 302	\$ 488

*See accompanying notes.*

# Zoological Society of San Diego

## Notes to Financial Statements

December 28, 2003

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

#### **Basis of Presentation**

The Zoological Society of San Diego (the Society) was incorporated in 1916, as a private, nonprofit corporation directed by a Board of Trustees (the Board). The Society operates two exhibition facilities, the World-Famous San Diego Zoo and the San Diego Wild Animal Park, and conducts conservation programs through its research operation, the Center for the Reproduction of Endangered Species (CRES). The San Diego Zoo and the Wild Animal Park exhibit animals and horticulture in natural botanical settings for the education and entertainment of visitors. At CRES, scientists, technicians and students work to further the conservation of animals, plants and endangered ecosystems. In addition to laboratory work, CRES also promotes in situ conservation via its field programs in key areas and "hotspots" in China, the Pacific Region, the southwestern United States, the Caribbean Islands, South America, Africa and elsewhere. CRES is also home to the Frozen Zoo<sup>®</sup>, the world's largest collection of genetic and reproductive material from endangered animals.

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

To ensure compliance with restrictions placed on the resources available to the Society, the Society's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting, into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics are combined into three net asset categories:

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

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

#### Accounting Period

The Society reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal years ended December 28, 2003 and December 29, 2002 each included 52 weeks and have been designated as fiscal years 2003 and 2002, respectively, in the accompanying financial statements.

#### Revenue Recognition

The Society records admissions, merchandising, grant and food & beverage revenue as earned. Membership revenue is deferred over the term of the membership, typically one year. In addition, the Society records gifts of long-lived assets as revenue at their fair value when they are received unconditionally. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

#### Animal and Horticultural Collections

In accordance with industry practice, animal and horticultural collections are recorded at the nominal amount of \$1, 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. Acquisitions are recorded as expenditures in the period of acquisition.

In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, the Society shares animals with other organizations. Consistent with industry practice, the Society does not record any asset or liability for such sharing arrangements, as generally these arrangements are without monetary consideration.

#### Cash and Cash Equivalents

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

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

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

#### **Investments**

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

#### **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.

#### **Auxiliary Activities**

The Society's auxiliary activities include retail merchandise and food operations, transportation operations, Wild Animal Park parking, educational activities and other similar support activities.

#### **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets which are generally from 3 to 25 years. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

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

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

The Society assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made full recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset's fair value.

#### **Donations and Bequests**

Donations with donor-imposed restrictions are reported as temporarily or permanently restricted revenue. Temporarily restricted net assets are reclassified to unrestricted net assets when an event occurs which satisfies the donor-imposed restriction.

#### **Operating Agreements**

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

The San Diego Zoo operating agreement expires in 2034. The Wild Animal Park operates under a renewable short-term agreement with the City of San Diego Water Utilities Department. Every five years, the fair rental value of the land is evaluated and the annual rent amount adjusted. The Society paid \$130,000 as annual rent in 2003 and 2002.

#### **Income Taxes**

The Society qualifies as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to income tax except to the extent of income received, which is unrelated to the Society's tax-exempt purpose.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

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

#### Use of Estimates

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

#### Accounting Change — Depreciable Lives

At the beginning of fiscal 2002, the Society changed the estimated useful lives of certain assets to reflect the extended use of these assets. The change of estimated useful lives reduced depreciation expense in 2002 by approximately \$5 million.

#### Reclassifications

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

### 2. Accounts Receivable

A summary of accounts receivable at December 28, 2003 and December 29, 2002 is as follows (in thousands):

	<b>2003</b>	<b>2002</b>
Tax revenue receivable	\$ 2,500	\$ 2,400
Trade receivables	1,988	1,162
Other receivables	791	499
Allowance for doubtful accounts	(30)	(30)
Total receivables	<u>\$ 5,249</u>	<u>\$ 4,031</u>

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

### 3. Inventories

A summary of inventories at December 28, 2003 and December 29, 2002 is as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Merchandise	\$ 2,790	\$ 3,381
Food service	380	469
Animal food and other	140	163
Total inventories	<u>\$ 3,310</u>	<u>\$ 4,013</u>

### 4. Investments

Investments, which are made up of 100% Equity Securities, totaled \$66,480 and \$61,410 at December 28, 2003 and December 29, 2002, respectively. Investments are recorded at fair market value. Included in investments is a cumulative unrealized gain at December 28, 2003 and December 29, 2002 of \$12,369,000 and \$8,685,000, respectively.

### 5. Bequests and Donations Receivable

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

	<u>2003</u>	<u>2002</u>
Within one year	\$ 10,667	\$ 1,158
In more than five years	18,632	18,351
	29,299	19,509
Allowance for uncollectible amounts	(861)	(809)
Net bequests and donations receivable	<u>\$ 28,438</u>	<u>\$ 18,700</u>

## Zoological Society of San Diego

### Notes to Financial Statements (continued)

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

Bequests and donations receivable are primarily comprised of split-interest agreements consisting of pooled-income funds, irrevocable trusts and charitable remainder trusts. Items that are expected to be collected in more than one year have been recorded at net present value, calculated using a discount rate of 5.3% and 4.2% for the years ended December 28, 2003 and December 29, 2002, respectively. Due to the nature of these items, it is difficult to estimate the time frame during which these will be collected. Consequently, all bequests receivable after one year are considered to be collectible in more than five years.

#### 6. Property and Equipment

A summary of property and equipment at December 28, 2003 and December 29, 2002 is as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Buildings, exhibits and improvements	\$ 182,275	\$ 167,239
Transportation and equipment	42,506	41,493
Construction in progress	12,812	12,965
	<u>237,593</u>	<u>221,697</u>
Less accumulated depreciation and amortization	(122,420)	(112,604)
Net property and equipment	<u>\$ 115,173</u>	<u>\$ 109,093</u>

The estimate to complete the construction in progress is approximately \$40 million as of December 28, 2003.

Capital lease obligations are secured by equipment with a net book value of approximately \$1,032,000 and \$1,149,000 at December 28, 2003 and December 29, 2002, respectively. Accumulated amortization related to leased assets was \$480,000 and \$464,000 at December 28, 2003 and December 29, 2002, respectively.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

### 7. Line of Credit

The Society has an unsecured financing agreement with a commercial bank that permits multiple borrowings, at variable rates of interest, up to \$25 million. The financing agreement, which expires on November 1, 2005, 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. The outstanding balance of \$17,525,000 bears interest at rates ranging from 1.59% to 2.50% with an overall effective rate of 1.92% at the end of 2003. Interest payments are required to be made monthly. The line of credit contains certain covenants with which the Society was in full compliance at December 28, 2003.

At December 28, 2003, the Society has an outstanding letter of credit for \$1,747,000 under this agreement. The letter of credit reduces the amount available for borrowing.

### 8. Capital Lease Obligations

The Society has capital lease obligations, with interest rates ranging from approximately 5.8% to 10.2% (a weighted average interest rate on all lease obligations is approximately 8.6%). Future installment amounts are as follows (in thousands):

2004	\$ 242
2005	114
Total minimum lease payments	<u>356</u>
Less imputed interest	(22)
Present value of minimum lease payments	<u>\$ 334</u>

### 9. Note Payable

On February 6, 2003, the Society entered into an agreement with a University to purchase certain environmental credits in exchange for \$250,000 cash and a note payable for \$1,750,000. The environmental credits were attached to a parcel of land owned by the University, which upon dedication to the City of San Diego can be used as mitigation credits required in connection with construction projects at the Wild Animal Park. The note payable bears a 7% interest rate and is payable in annual installments over 7 years.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

### 10. Temporarily and Permanently Restricted Net Assets

Temporary and permanently restricted net assets at December 28, 2003 and December 29, 2002 are available for the following purposes (in thousands):

	<b>Temporarily Restricted</b>	
	<b>2003</b>	<b>2002</b>
Restricted for capital investment:		
CRES center	\$ —	\$ 3,837
Heart of the Zoo III	834	1,101
Education pavilion	481	994
Simang and orangutan exhibit	—	821
Lion Exhibit	848	—
Other capital items	635	924
	2,798	7,677
Restricted for programs:		
Panda research	917	977
Education	309	135
CRES research	134	90
Other projects	2	121
	1,362	1,323
Donations and bequests receivable	28,438	18,700
	\$ 32,598	\$ 27,700
	<b>Permanently Restricted</b>	
	<b>2003</b>	<b>2002</b>
Endowments:		
CRES	\$ 11,041	\$ 10,618
Education	2,673	2,455
Steel Foundation – Director’s endowment	1,679	1,679
	\$ 15,393	\$ 14,752

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

### 11. Board Designated Net Assets

Certain unrestricted net assets have been designated by the Board of Trustees to only be used for specific purposes. These designations include a fund for CRES designated to fund research improving the husbandry and reproduction 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. As these board restrictions are not binding, they are not reflected as restricted net assets in the accompanying financial statements.

### 12. 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 following table sets forth the plans' funded status based on the latest actuarial report (as of December 28, 2003) and the accrued benefit cost recognized in the Society's statements of financial position (in thousands):

	<u>2003</u>	<u>2002</u>
Plan assets at fair value	\$ 43,918	\$ 37,786
Projected benefit obligation	<u>(59,545)</u>	<u>(48,095)</u>
Funded status	<u>(15,627)</u>	<u>(10,309)</u>
Accrued benefit cost	<u>7,650</u>	<u>4,543</u>
Additional minimum liability	<u>\$ 2,210</u>	<u>\$ 1,293</u>

Weighted-average assumptions:

Discount rate	6.25%	7.0%
Expected return on plan assets	8.5%	8.0%
Rate of compensation increase	3.0%	3.0%

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

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

The following table sets forth benefit cost and benefits paid (in thousands):

	<u>2003</u>	<u>2002</u>
Benefit cost	\$ 3,107	\$ 4,117
Benefits paid	\$ 1,565	\$ 2,360
Funds appropriated for employer contributions	\$ 800	\$ 500

In 2002, the Society offered early retirement to employees who met certain eligibility requirements. The eligible participants that selected the early retirement package retired on March 31, 2002 in exchange for certain additional benefits under the program. The additional benefits included a one-time lump sum cash payment based on years of service. The lump sum payments to participants totaled \$880,000 and are included in benefits paid for 2002. The other additional benefits under the program increased the projected benefit obligation by \$2,837,000 as of December 29, 2002.

The Society also maintains 403(b) defined contribution plans, covering employees who meet certain age and service requirements. Eligible employees may contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations. In addition, the Society has a 403(b) defined contribution plan with allows for employer matching contributions to eligible employees.

### 13. Fair Value of Financial Instruments

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

- The carrying values of cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
- Investments are reported at fair value based on quoted market prices in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.
- The carrying amount of bequests and donations receivable approximates fair value because these donations, which are anticipated to be collected in cash, are recorded at the net present value of the amounts pledged, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

# Zoological Society of San Diego

## Notes to Financial Statements (continued)

### 13. Fair Value of Financial Instruments (continued)

- 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.

### 14. Commitments and Contingencies

The accompanying financial statements are 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.

In 2001, the Society entered into an agreement with its electricity provider for the purchase of a fixed quantity of electricity at a rate based on agreed-upon terms. The purpose of the agreement is to secure a continuing source of electricity for the five-year term of the agreement and to mitigate risks associated with potential decreases in supply or increases in costs of electricity. The rate established under the agreement is based on certain market conditions and is subject to fluctuation.

The Society has entered into certain non-cancelable lease agreements for a warehouse facility and office space as well as non-cancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense was \$870,000 and \$1,055,000 for the years ended 2003 and 2002, respectively. Minimum lease payments under these agreements are as follows (in thousands):

2004	\$	755
2005		550
2006		407
2007		344
2008		352
Thereafter		<u>1,004</u>
	\$	<u><u>3,412</u></u>