

**Zoological Society of San Diego
dba San Diego Zoo Global**

**Combined Financial Statements
and Independent Auditor's Report**

December 29, 2013 and December 30, 2012

**Zoological Society of San Diego
dba San Diego Zoo Global**

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Independent Auditor's Report

To the Board of Trustees
Zoological Society of San Diego dba San Diego Zoo Global

We have audited the accompanying combined financial statements of Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global"), which comprise the combined statements of financial position as of December 29, 2013 and December 30, 2012, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of SDZ Global as of December 29, 2013 and December 30, 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

San Diego, California
April 14, 2014

**Zoological Society of San Diego
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**Combined Statements of Financial Position
December 29, 2013 and December 30, 2012
(In Thousands)**

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 91,052	\$ 55,493
Accounts receivable, net	7,382	7,681
Inventories, net	2,281	2,249
Prepaid expenses and other assets	7,839	8,509
Investments	104,040	88,882
Split-interest agreements	22,644	23,669
Bequests and contributions receivable, net	26,359	30,093
Property and equipment, net	<u>189,837</u>	<u>187,375</u>
Total assets	<u>\$ 451,434</u>	<u>\$ 403,951</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,328	\$ 20,098
Accrued salaries and salary-related expenses	21,844	19,737
Deferred support and revenue	16,792	16,961
Liability for pension benefits	32,815	71,006
Line of credit	600	2,500
Bonds payable	<u>39,065</u>	<u>40,165</u>
Total liabilities	<u>130,444</u>	<u>170,467</u>
Commitments and contingencies		
Net assets:		
Unrestricted	219,829	131,846
Temporarily restricted	64,484	67,860
Permanently restricted	<u>36,677</u>	<u>33,778</u>
Total net assets	<u>320,990</u>	<u>233,484</u>
Total liabilities and net assets	<u>\$ 451,434</u>	<u>\$ 403,951</u>

See Notes to Combined Financial Statements.

**Zoological Society of San Diego
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**Combined Statement of Activities and Changes in Net Assets
Year Ended December 29, 2013
(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Admissions and memberships	\$ 92,807	\$ -	\$ -	\$ 92,807
Auxiliary activities	107,726	-	-	107,726
Contributions	15,210	17,846	2,899	35,955
Grant revenue for services	6,568	-	-	6,568
Tax revenue and other	17,142	-	-	17,142
Net assets released from restrictions	29,284	(29,284)	-	-
Total revenues and support	<u>268,737</u>	<u>(11,438)</u>	<u>2,899</u>	<u>260,198</u>
Expenses:				
Exhibition and animal care facility operations	186,395	-	-	186,395
Research and conservation activities	20,895	-	-	20,895
Educational programs	4,257	-	-	4,257
Administration	25,224	-	-	25,224
Actuarial charges for pension	3,308	-	-	3,308
Total expenses	<u>240,079</u>	<u>-</u>	<u>-</u>	<u>240,079</u>
Change in net assets from operations	28,658	(11,438)	2,899	20,119
Investment income	14,131	7,426	-	21,557
Change in value of split-interest agreements	-	636	-	636
Interest expense	(1,501)	-	-	(1,501)
Unrealized gain on swap transaction	3,783	-	-	3,783
Pension-related changes other than net periodic pension cost	42,912	-	-	42,912
Change in net assets	<u>87,983</u>	<u>(3,376)</u>	<u>2,899</u>	<u>87,506</u>
Net assets:				
Beginning of year	<u>131,846</u>	<u>67,860</u>	<u>33,778</u>	<u>233,484</u>
Net assets, end of year	<u>\$ 219,829</u>	<u>\$ 64,484</u>	<u>\$ 36,677</u>	<u>\$ 320,990</u>

See Notes to Combined Financial Statements.

**Zoological Society of San Diego
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**Combined Statement of Activities and Changes in Net Assets
Year Ended December 30, 2012
(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Admissions and memberships	\$ 83,209	\$ -	\$ -	\$ 83,209
Auxiliary activities	99,024	-	-	99,024
Contributions	10,547	22,758	2,986	36,291
Grant revenue for services	7,824	-	-	7,824
Tax revenue and other	17,400	-	-	17,400
Net assets released from restrictions	20,704	(20,704)	-	-
Total revenues and support	<u>238,708</u>	<u>2,054</u>	<u>2,986</u>	<u>243,748</u>
Expenses:				
Exhibition and animal care facility operations	173,509	-	-	173,509
Research and conservation activities	19,887	-	-	19,887
Educational programs	3,486	-	-	3,486
Administration	23,624	-	-	23,624
Actuarial charges for pension	3,785	-	-	3,785
Total expenses	<u>224,291</u>	<u>-</u>	<u>-</u>	<u>224,291</u>
Change in net assets from operations	14,417	2,054	2,986	19,457
Investment income	11,463	5,524	-	16,987
Change in value of split-interest agreements	-	1,338	-	1,338
Interest expense	(2,168)	-	-	(2,168)
Unrealized gain on swap transaction	314	-	-	314
Pension-related changes other than net periodic pension cost	(10,009)	-	-	(10,009)
Change in net assets	<u>14,017</u>	<u>8,916</u>	<u>2,986</u>	<u>25,919</u>
Net assets:				
Beginning of year	<u>117,829</u>	<u>58,944</u>	<u>30,792</u>	<u>207,565</u>
Net assets, end of year	<u>\$ 131,846</u>	<u>\$ 67,860</u>	<u>\$ 33,778</u>	<u>\$ 233,484</u>

See Notes to Combined Financial Statements.

**Zoological Society of San Diego
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**Combined Statements of Cash Flows
Years Ended December 29, 2013 and December 30, 2012
(In Thousands)**

	2013	2012
Operating activities:		
Change in net assets	\$ 87,506	\$ 25,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,511	20,426
Accretion of discount on bequests and contributions receivable	(789)	(869)
Provision for uncollectible receivables	509	53
Net realized gain on sale of investments and investment income	(10,391)	(6,742)
Net gain on disposal of property and equipment	(39)	-
Interest earned on beneficial interest in perpetual trust	(155)	(140)
Change in split-interest	(636)	(1,338)
Net unrealized gain on investments	(11,011)	(10,105)
Unrealized gain on swap transaction	(3,783)	(314)
Restricted contributions for endowments and capital improvements	(6,882)	(8,244)
Changes in operating assets and liabilities:		
Accounts receivable, net	266	327
Inventories, net	(32)	67
Prepaid expenses and other assets	670	(1,722)
Split-interest agreements	1,816	195
Bequests and contributions receivable, net	4,047	(1,947)
Accounts payable and accrued expenses	3,013	1,877
Accrued salaries and salary-related expenses	2,107	1,977
Deferred support and revenue	(169)	(269)
Liability for pension benefits	(38,191)	8,203
Net cash provided by operating activities	48,367	27,354
Investing activities:		
Proceeds from sale of marketable securities	77,599	74,337
Purchases of marketable securities	(71,355)	(69,661)
Proceeds from sale of property and equipment	48	-
Purchases of property and equipment	(22,982)	(17,734)
Net cash used in investing activities	(16,690)	(13,058)
Financing activities:		
Payments on line of credit	(1,900)	(6,600)
Payments on bonds payable	(1,100)	(840)
Principal payments on capital lease obligations	-	(38)
Restricted contributions for endowments	2,899	2,986
Restricted contributions for capital improvements	3,983	5,258
Net cash provided by financing activities	3,882	766
Net increase in cash and cash equivalents	35,559	15,062
Cash and cash equivalents, beginning of year	55,493	40,431
Cash and cash equivalents, end of year	\$ 91,052	\$ 55,493
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,620	\$ 1,786

See Notes to Combined Financial Statements.

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**Notes to Combined Financial Statements
(All Dollar Amounts in Thousands)
December 29, 2013 and December 30, 2012**

Note 1 - Nature of operations

The Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global") was incorporated in 1916 as a private, nonprofit corporation directed by a Board of Trustees (the "Board"). SDZ Global operates two exhibition and animal care 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. These programs are supported largely through admissions, memberships and sales at both facilities and in part by the San Diego Zoo Global Wildlife Conservancy. SDZ Global exhibits animals and plants in natural botanical settings for the education and entertainment of visitors; generates, shares, and applies scientific knowledge vital to the conservation of animals, plants, and habitats worldwide; and is dedicated to bringing endangered species back from the brink of extinction.

SDZ Global also manages the Centre for Bioinspiration, the Anne and Kenneth Griffin Reptile Conservation Center, the Native Seed Gene Bank, the Keauhou and Maui Hawaii Endangered Bird Conservation Centers, the San Clemente Loggerhead Shrike Breeding Facility, the Cocha Cashu Biological Research Station, the Desert Tortoise Conservation Center, and an 800-acre biodiversity reserve adjacent to the San Diego Zoo Safari Park. SDZ Global's scientists, technicians and students work to further the conservation of animals, plants, and endangered ecosystems. In addition to laboratory work, SDZ Global 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. SDZ Global is also home to the Frozen Zoo™, the world's largest collection of genetic and reproductive material from endangered animals.

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

SDZ Global formed San Diego Zoo Global – Peru ("SDZG Peru") in 2012. SDZG Peru is a related nonprofit association incorporated in Cusco, Peru. The purpose of SDZG Peru is to perform, in the Republic of Peru, the promotion and development of programs for the protection and conservation of the environment, including operating and managing the Cocha Cashu Biological Field Research Station. The activities of SDZG Peru are included in SDZ Global's combined financial statements.

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**Notes to Combined Financial Statements
(All Dollar Amounts in Thousands)
December 29, 2013 and December 30, 2012**

Note 2 - Basis of presentation and summary of significant accounting policies

Accounting period

SDZ Global reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal years ended December 29, 2013 ("2013") and December 30, 2012 ("2012") included 52 weeks each and have been designated as 2013 and 2012, respectively, in the accompanying combined financial statements.

Fund accounting and net asset classification

To ensure compliance with restrictions placed on the resources available to SDZ Global, SDZ Global'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 combined 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 SDZ Global to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by SDZ Global's expenditure for the specified purpose.
- Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit SDZ Global to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenue recognition

SDZ Global 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, SDZ Global records gifts of long-lived assets as revenue at their fair value when they are received unconditionally. SDZ Global reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Temporarily restricted income which is received and expended in the current year is recorded as unrestricted income.

Auxiliary activities

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

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Tax revenue and other

SDZ Global receives partial funding from property taxes due to a voter-approved section of the San Diego City Charter ("Section 77a"). Section 77a was originally approved in 1934 and amended in 1941. Section 77a monies are used exclusively for the maintenance of zoological exhibits at the San Diego Zoo facility. SDZ Global recognized \$9,955 and \$9,507 in Section 77a revenue in 2013 and 2012, respectively. Tax revenue and other includes Section 77a 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, SDZ Global shares animals with other organizations. Consistent with industry practice, SDZ Global does not record any asset or liability for such sharing arrangements.

Cash and cash equivalents

SDZ Global 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 grants receivable. Trade receivables consist of outstanding balances from travel and tourism companies that purchase and then resell admission tickets to SDZ Global's facilities. Grants receivable consist of amounts billed and unbilled from government agencies and various foundations. The allowance for doubtful accounts total \$161 and \$155 at year end 2013 and 2012, respectively, which represents SDZ Global'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.

At year end 2013 and 2012, SDZ Global has a receivable of approximately \$4,012 and \$4,280, respectively, of Section 77a property tax proceeds held by the City of San Diego (the "City").

Investments

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

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**Notes to Combined Financial Statements
(All Dollar Amounts in Thousands)
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Concentration of credit risk

Financial investments that potentially subject SDZ Global to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable, split-interest agreements and bequests and contributions receivable. SDZ Global maintains its cash and cash equivalents with various financial institutions and may be exposed from time to time to credit risk with bank deposits in excess of FDIC insurance limits. Investments are managed within guidelines established by the Board which, as a matter of policy, limit the amounts which may be invested with one issuer. SDZ Global's funds are invested primarily in marketable equity securities and mutual funds that trade in active markets with relatively low liquidity or credit risks.

SDZ Global had cash and cash equivalents which exceeded FDIC insured limits at certain financial institutions in excess of \$85,610 and \$9,630 as of year end 2013 and 2012, respectively.

Approximately 54% and 56% of accounts receivable was from one payor as of year end 2013 and 2012, respectively. Approximately 64% and 70% of bequests and contributions receivable were from 2 and 3 donors as of year end 2013 and 2012, respectively.

SDZ Global had approximately 22 and 20 government contracts in 2013 and 2012, respectively, from Federal sources. The largest contract was for the Federal funded program for Fish and Wildlife Management Assistance totaling approximately \$1,155 and \$1,015 in 2013 and 2012, respectively.

Inventories

SDZ Global's inventories are valued at the lower of cost or market, and accounted for using a weighted-average cost basis.

Property and equipment

Property and equipment with an acquisition cost of five thousand dollars or greater are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which are generally from 3 to 25 years. No depreciation is taken on assets until they are placed in service. 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

SDZ Global 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 2013 or 2012.

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**Notes to Combined Financial Statements
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Split-interest agreements

SDZ Global is licensed by the State of California Department of Insurance as a Grants and Annuities Society. As such, SDZ Global may issue charitable gift annuity contracts. SDZ Global had 71 and 66 outstanding annuity contracts entered into with 54 and 50 separate donors as of year end 2013 and 2012, respectively. The present value of the life annuities associated with these contracts is included in accounts payable and accrued expenses in the combined statements of financial position.

For charitable gift annuity agreements, SDZ Global 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 annuitant, SDZ Global is entitled to full use of the remainder. Charitable gift annuity assets are recorded at fair value. A liability is then recorded for the amount of the annuity payments payable to the donor based on the actuarial life of the donor. The liability for charitable gift annuity agreements is included in accounts payable and accrued expenses in the combined statements of financial position and totaled \$2,900 and \$2,852 at year end 2013 and 2012, respectively. Changes in charitable gift assets and liabilities are included in the change in value of split-interest agreements in the combined statements of activities.

SDZ Global is the beneficiary of assets held in two irrevocable split interest agreement pooled income funds administered by bank trustees. The assets of the pooled income funds are recorded at fair value. The difference between the fair market value of the assets in the pooled income fund and the present value of estimated future contributions to be received has been recorded as deferred revenue. The amortization of discount and changes in actuarial assumptions are included in the change in value of split-interest agreements in the combined statements of activities.

SDZ Global is the beneficiary in 46 irrevocable charitable trusts, for which SDZ Global is not the trustee. Each trust names SDZ Global as a residual beneficiary following the death of one or more life income beneficiaries. The fair value of the assets to be received under each trust, discounted for the estimated time until receipt, is recorded in beneficial interest in charitable remainder trusts included in split-interest agreements in the combined statements of financial position and in temporarily restricted net assets until trust termination. The current year change in the valuation of beneficial interest in charitable remainder trusts is included in the change in value of split-interest agreements in the combined statements of activities.

SDZ Global estimates fair value of split-interest agreements by using net present value calculations with discount rates of 3.22% to 6.00% for 2013 and 2012 and estimated life expectancies based upon the mortality rate tables published by the Internal Revenue Service.

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SDZ Global has a beneficial interest in a perpetual trust held by a third-party trustee. Under the perpetual trust arrangement, SDZ Global has recorded the asset and has recognized permanently restricted contribution revenue at the fair value of SDZ Global's beneficial interest in the trust assets. Distributions received on the trust assets are recorded as temporarily restricted investment income in the combined statements of activities. Subsequent changes in fair value of the beneficial interest in the trust assets are included in the change in value of split-interest agreements on the combined statements of activities.

Accounting for contributions

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 fair value when received.

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is received and, therefore, are reported as temporarily restricted until the payment is received unless the contribution is received with permanent restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

Bequests and contributions receivable

Bequests and contributions receivable are primarily comprised of bequest agreements, which include irrevocable trusts, and pledged gift agreements, which are unconditional promises to give. Bequests and contributions receivable are recorded as revenue upon the receipt of the unconditional promise to give.

Bequests and contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Bequests and contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises.

Operating agreements

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

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The San Diego Zoo lease agreement expires in 2034. The San Diego Zoo Safari Park operates under a renewable short-term operating 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. SDZ Global paid \$140 as annual rent in 2013 and 2012.

Consistent with prior years, the fair values of the leases have not been reflected in the accompanying combined financial statements because objective valuation information is not available due to the unique characteristics and public park locations of the facilities.

Income taxes

SDZ Global, a California nonprofit public benefit corporation, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California.

In accordance with accounting standards for income taxes, income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. SDZ Global has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDZ Global believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on SDZ Global's combined financial condition, change in net assets or cash flows. Accordingly, SDZ Global has not recorded any reserve or related accruals for interest and penalties for uncertain income tax positions at year end 2013 and 2012.

SDZ Global's U.S. Federal and state income tax returns prior to fiscal years 2010 and 2009, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management is not aware of any pending reviews of examinations.

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 swaps

SDZ Global utilizes interest rate swap contracts to manage the risk associated with fluctuations in interest rates on its variable rate debt. Pursuant to these agreements, SDZ Global 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. SDZ Global's policy is not to utilize financial instruments for trading or speculative purposes. Accordingly, it designates its interest rate swap 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.

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Substantially all of SDZ Global's interest-bearing debt carries a floating interest rate. Therefore, in the normal course of business, SDZ Global 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, SDZ Global entered into a 30-year interest rate swap agreement converting a notional \$30,000 of floating-rate debt into fixed-rate debt that bears interest at 3.905%, covering approximately two-thirds of the outstanding debt. In May 2010, SDZ Global 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, SDZ Global's outstanding debt is effectively at fixed rates at year end 2013.

For the valuation of the interest rate swaps at December 29, 2013, SDZ Global used significant other observable inputs as of the valuation date (Level 2), including prices of instruments of similar maturities and characteristics. The fair value of the interest rate swaps is recorded within the combined statements of financial position at each period end. Changes in the fair value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the combined statements of activities. The valuation of the swaps remaining at year end resulted in an unrealized gain of \$3,783 and \$314 in 2013 and 2012, respectively. The accumulated net unrealized loss is included in accounts payable and accrued expenses in the combined statements of financial position and totaled \$4,978 and \$8,761 as of year end 2013 and 2012, respectively. Providing that SDZ Global holds the swap to maturity, the value of the derivative will be zero. The swap agreements can be terminated at the market rate at any time during the term of the agreement.

Advertising costs

Advertising costs are expensed as incurred and totaled \$12,534 and \$11,337 for 2013 and 2012, respectively. This includes transactions for bartered admission tickets valued at \$2,705 and \$2,782 for 2013 and 2012, respectively.

Barter Transactions

SDZ Global enters into barter transactions with certain vendors to receive goods or services in exchange for admission tickets to the San Diego Zoo or the San Diego Zoo Safari Park facilities. Fair market value ("FMV") is determined based upon the value of the goods or services received. If the FMV of goods or service received is not readily determinable, then the FMV of the admissions tickets is used as the basis for valuing the transaction. Barter transactions are recognized in the period in which they occur. For the years ended 2013 and 2012, SDZ Global recorded barter transactions totaling \$3,676 and \$3,469, respectively, in admissions and memberships, exhibition and animal care facility operations, and administration in the combined statements of activities.

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Contributed services

Contributed services are reflected in the accompanying combined financial statements at the fair value of the services received, if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would otherwise need to be purchased if not provided by donation.

SDZ Global receives contributed services through various volunteer programs at the facilities and on certain conservation projects. Volunteers contributed approximately 149,000 and 125,000 hours in 2013 and 2012, respectively. Contributed services through volunteers are not recorded in the combined statements of activities as they generally do not meet the criteria described above.

Fundraising expenses

Fundraising expenses are included in administration expense in the combined statements of activities and totaled \$6,997 and \$6,503 in 2013 and 2012, respectively.

Use of estimates

In accordance with its established practices, management of SDZ Global 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 combined financial statements in accordance with generally accepted accounting principles in the United States of America. Actual results could differ from these estimates.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Subsequent events

In preparing the combined financial statements, SDZ Global evaluated subsequent events through April 14, 2014, the date that these combined financial statements were available to be issued.

Note 3 - Fair value

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 and cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
- Investments reported as Level 1 assets are reported at fair value based on quoted market prices. Investments reported as Level 2 assets are reported at fair value based on inputs other than Level 1 that are observable. Investments reported as Level 3 assets are reported at fair value based on unobservable inputs that are supported by little or no market activity.

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- The interest rate swaps are reported at fair value based on other observable inputs.
- The carrying amount of split-interest agreements and bequests and contributions receivable approximates fair value because these contributions, which are anticipated to be collected in cash, are either short-term receivables or are recorded at the net present value of the amounts pledged.
- The carrying amount of the bonds payable obligation approximates fair value because the obligation is recorded based on adjustable rates that approximate market value.
- The carrying amount of the line of credit obligation approximates fair value because the obligations are recorded at the net present value of future payments at market interest rates.

Fair value measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value under accounting principles generally accepted in the United States of America and enhance disclosures about fair value measurements. Fair value is defined under this standard 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 this standard 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:

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.

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.

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- 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 measure the fair value of certain assets and liabilities as of December 29, 2013. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 29, 2013	Fair Value Measurements at Reporting Date Using			Valuation Techniques (a,b,c)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments					
Mutual fund – equity – International	\$ 11,079	\$ 11,079	\$ -	\$ -	a
Equity securities – Domestic	66,275	66,275	-	-	a
Equity securities – International	25,445	25,445	-	-	a
Limited partnerships	1,241	-	-	1,241	c
Total investments	<u>\$ 104,040</u>	<u>\$ 102,799</u>	<u>\$ -</u>	<u>\$ 1,241</u>	
Split-interest agreements					
Pooled income fund	\$ 6,309	\$ -	\$ 6,309	\$ -	a
Charitable gift annuities	4,278	4,093	185	-	a
Beneficial interest in perpetual trust	6,744	-	-	6,744	c
Beneficial interest in charitable remainder trusts	5,313	-	-	5,313	c
Total split-interest agreements	<u>\$ 22,644</u>	<u>\$ 4,093</u>	<u>\$ 6,494</u>	<u>\$ 12,057</u>	
Liabilities					
Charitable gift liabilities ⁽¹⁾	\$ 2,900	\$ -	\$ 2,900	\$ -	c
Interest rate swap ⁽¹⁾	4,978	-	4,978	-	c
Total liabilities	<u>\$ 7,878</u>	<u>\$ -</u>	<u>\$ 7,878</u>	<u>\$ -</u>	

⁽¹⁾ Included as a component of accounts payable and accrued expenses on the accompanying combined statement of financial position

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The following tables provide the method used to measure the fair value of certain assets and liabilities as of December 30, 2012. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 30, 2012	Fair Value Measurements at Reporting Date Using			Valuation Techniques (a,b,c)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments					
Mutual fund – equity – International	\$ 14,463	\$ 14,463	\$ -	\$ -	a
Equity securities – Domestic	55,153	55,153	-	-	a
Equity securities – International	18,500	18,500	-	-	a
Limited partnerships	766	-	-	766	c
Total investments	<u>\$ 88,882</u>	<u>\$ 88,116</u>	<u>\$ -</u>	<u>\$ 766</u>	
Split-interest agreements					
Pooled income fund	\$ 7,158	\$ -	\$ 7,158	\$ -	a
Charitable gift annuities	4,435	3,798	637	-	a
Beneficial interest in perpetual trust	6,264	-	-	6,264	c
Beneficial interest in charitable remainder trusts	5,812	-	-	5,812	c
Total split-interest agreements	<u>\$ 23,669</u>	<u>\$ 3,798</u>	<u>\$ 7,795</u>	<u>\$ 12,076</u>	
Liabilities					
Charitable gift liabilities ⁽¹⁾	\$ 2,852	\$ -	\$ 2,852	\$ -	c
Interest rate swap ⁽¹⁾	8,761	-	8,761	-	c
Total liabilities	<u>\$ 11,613</u>	<u>\$ -</u>	<u>\$ 11,613</u>	<u>\$ -</u>	

(1) Included as a component of accounts payable and accrued expenses on the accompanying combined statement of financial position.

The following table sets forth a summary of changes in the fair value of SDZ Global's Level 3 assets for 2013:

	Beneficial Interest in a Perpetual Trust	Charitable Remainder Trusts	Limited Partnerships	Total
Balance, beginning of year	\$ 6,264	\$ 5,812	\$ 766	\$ 12,842
Realized losses	-	-	49	49
Unrealized gains related to instruments still held at the reporting date	-	-	91	91
Purchases	-	-	392	392
Contributions	-	825	-	825
Sales	-	-	(57)	(57)
Distributions received	(155)	(1,710)	-	(1,865)
Gains included in change in net assets	635	386	-	1,021
Balance, end of year	<u>\$ 6,744</u>	<u>\$ 5,313</u>	<u>\$ 1,241</u>	<u>\$ 13,298</u>

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The following table sets forth a summary of changes in the fair value of SDZ Global's Level 3 assets for 2012:

	Beneficial Interest in a Perpetual Trust	Charitable Remainder Trusts	Limited Partnerships	Total
Balance, beginning of year	\$ 5,703	\$ 5,779	\$ 400	\$ 11,882
Realized losses	-	-	(20)	(20)
Unrealized gains related to instruments still held at the reporting date	-	-	16	16
Purchases	-	-	425	425
Sales	-	-	(55)	(55)
Distributions received	(140)	-	-	(140)
Gains included in change in net assets	701	33	-	734
Balance, end of year	<u>\$ 6,264</u>	<u>\$ 5,812</u>	<u>\$ 766</u>	<u>\$ 12,842</u>

The following table represents SDZ Global's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2013:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values	Weighted Average
Limited partnerships	\$ 1,241	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A
Beneficial interest in charitable remainder trusts	\$ 5,313	Present value of expected cash flows	Investment yield Discount rate	4.32% 4.32%	N/A
Beneficial interest in perpetual trust held by others	\$ 6,744	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

The following table represents SDZ Global's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2012:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values	Weighted Average
Limited partnerships	\$ 766	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A
Beneficial interest in charitable remainder trusts	\$ 5,812	Present value of expected cash flows	Investment yield Discount rate	4.32% 4.32%	N/A
Beneficial interest in perpetual trust held by others	\$ 6,264	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

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Note 4 - Accounts receivable

Accounts receivable consist of the following at year end 2013 and 2012:

	2013	2012
Trade receivables	\$ 973	\$ 953
City of San Diego (Section 77a) receivable	4,012	4,280
Grants receivable	1,680	1,929
Other	878	674
	7,543	7,836
Less allowance for doubtful accounts	(161)	(155)
Total accounts receivable, net	\$ 7,382	\$ 7,681

Note 5 - Inventories

Inventories consist of the following at year end 2013 and 2012:

	2013	2012
Merchandise	\$ 1,217	\$ 1,269
Food service	699	756
Animal food and other	424	285
	2,340	2,310
Less inventory reserve	(59)	(61)
Total inventories, net	\$ 2,281	\$ 2,249

Note 6 - Investments

Investments, stated at fair value, consist of the following at year end 2013 and 2012:

	2013	2012
Mutual fund – equity	\$ 11,079	\$ 14,463
Marketable equity securities	91,720	73,653
Limited partnerships	1,241	766
	104,040	88,882
Total investments	\$ 104,040	\$ 88,882

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

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Investment income consists of the following for 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income and dividends	\$ 1,419	\$ 865	\$ 2,284
Net realized gain	6,057	3,113	9,170
Net unrealized gain	7,253	3,758	11,011
Investment advisory and custodial fees	<u>(598)</u>	<u>(310)</u>	<u>(908)</u>
	<u>\$ 14,131</u>	<u>\$ 7,426</u>	<u>\$ 21,557</u>

Investment income consists of the following for 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income and dividends	\$ 1,510	\$ 830	\$ 2,340
Net realized gain	3,615	1,711	5,326
Net unrealized gain	6,872	3,233	10,105
Investment advisory and custodial fees	<u>(534)</u>	<u>(250)</u>	<u>(784)</u>
	<u>\$ 11,463</u>	<u>\$ 5,524</u>	<u>\$ 16,987</u>

Mutual funds consist of investments in international stocks and diversified emerging markets. Marketable equity securities consist of investments in U.S. and foreign common stocks, which are held by major brokerage firms. Limited partnerships consist of investments in real estate funds.

Note 7 - Split-interest agreements

Split-interest agreements consist of the following at year end 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Pooled income funds	\$ 6,309	\$ 7,158
Charitable gift annuities	4,278	4,435
Charitable remainder trusts	5,313	5,812
Beneficial interest in perpetual trusts	<u>6,744</u>	<u>6,264</u>
Total split-interest agreements	<u>\$ 22,644</u>	<u>\$ 23,669</u>

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Note 8 - Bequests and contributions receivable

Bequests and contributions receivable consist of the following at year end 2013 and 2012:

	2013	2012
Irrevocable trusts	\$ 1,262	\$ 6,828
Pledged gift agreements	25,347	23,515
	26,609	30,343
Allowance for uncollectible amounts	(250)	(250)
Total bequests and contributions receivable, net	\$ 26,359	\$ 30,093

Contributions receivable in the form of pledge gift agreements are unconditional promises to give. Pledges are recorded at the applicable risk-adjusted discount rates, which range from 2.76% to 3.67%, established in the year the gift was received and commensurate with the duration of the donor's payment plan.

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

2014		\$ 3,677
2015		3,019
2016		2,112
2017		1,968
2018		1,963
In more than five years		20,022
		32,761
Unamortized discount		(6,152)
Net present value		26,609
Allowance for uncollectible accounts		(250)
Total bequests and contributions receivable, net		\$ 26,359

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Note 9 - Property and equipment

Property and equipment consists of the following at year end 2013 and 2012:

	2013	2012
Buildings, exhibits and improvements	\$ 385,925	\$ 379,445
Transportation and equipment	53,076	51,537
Construction in progress	15,153	7,746
	454,154	438,728
Less accumulated depreciation and amortization	(264,317)	(251,353)
	\$ 189,837	\$ 187,375

Property and equipment includes capitalized interest of \$142 for 2013 and \$159 for 2012. Depreciation expense totaled \$20,511 for 2013 and \$20,426 for 2012.

Note 10 - Debt

Tax-exempt bonds

Series 2004 Bonds: In June 2004, SDZ Global issued \$45,000 of tax-exempt variable rate demand bonds (Series 2004 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. The Series 2004 Bonds were fully redeemed on October 1, 2012 from the proceeds of the Series 2012 Bonds. Interest on the bonds was adjusted through a weekly remarketing process in the tax-exempt bond market. The bonds were secured by a standby letter of credit that was guaranteed by SDZ Global, collateralized by the assets of SDZ Global and subject to certain restrictive covenants. In the event of a failure in the remarketing process, the standby letter of credit would 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, SDZ Global would have been required to repay the then outstanding principal over a time period of less than one year. There is no outstanding principal balance as of years ended 2013 and 2012 for the Series 2004 Bonds.

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Series 2012 Bonds: On October 1, 2012, SDZ Global issued \$40,165 in tax-exempt variable rate demand bonds (Series 2012 Bonds) through the California Municipal Finance Authority for the purpose of refinancing the outstanding principal of the Series 2004 Bonds. Under a financing agreement with a bank, the Series 2012 Bonds bear a variable interest rate, payable monthly to the bank, of 65.1% of 1-month LIBOR plus 72 basis points (0.83% at year end 2013 and 0.86% at year end 2012). Principal payments are due on October 1 each year based on an amortization schedule through October 1, 2034, the maturity date.

The bank has a put option on October 1, 2019 and each seventh anniversary thereafter.

SDZ Global was in compliance with all financial covenants under the financing agreement at year end 2013 and 2012.

Costs incurred to issue the Series 2004 Bonds totaled \$712. The costs had been deferred and included in prepaid expenses and other assets in the combined statements of financial position and amortized over the 30-year term of the bonds using the effective interest method. These costs were fully expensed in 2012 upon the redemption of the Series 2004 Bonds. The unamortized balance of the issuance costs totaled \$0 at year end 2013 and 2012.

Costs incurred to issue the Series 2012 Bonds totaled \$150. The costs have been deferred and included in prepaid expenses and other assets in the combined statements of financial position and amortized over the first 7-year put option term using the effective interest method. The unamortized balance of the issuance costs totaled \$133 and \$144 at year end 2013 and 2012, respectively.

Line of credit

SDZ Global 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, 2014, provides that SDZ Global 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 or (2) LIBOR plus 1%. The outstanding balance totaled \$600 at year end 2013 and \$2,500 at year end 2012, and accrued interest at 1.164% and 1.72% at year end 2013 and 2012, respectively. Interest payments are required to be made monthly. The line of credit contains certain covenants with which SDZ Global was in full compliance at year end 2013 and 2012. SDZ Global has outstanding letters of credit for \$953 under this agreement at year end 2013 and 2012, which reduce the amount available for borrowing. There were no amounts drawn on the letters of credit at year end 2013 and 2012.

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On October 30, 2007, SDZ Global amended the loan agreement to include an additional line of credit facility of \$20,000 until December 29, 2009; \$16,500 from December 31, 2009 to December 29, 2010; \$12,500 from December 31, 2010 to December 29, 2011; and \$7,500 from December 31, 2011 to December 1, 2014. 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. There were no balances outstanding on the credit facility at year end 2013 and 2012.

Maturities of long-term debt in each of the five years subsequent to year end 2013 and thereafter are as follows:

2014	\$	1,750
2015		1,205
2016		1,255
2017		1,315
2018		1,375
Thereafter		<u>32,765</u>
	\$	<u><u>39,665</u></u>

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Note 11 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at year end 2013 and 2012:

	2013	2012
Restricted for capital investment:		
San Diego Zoo exhibits and equipment	\$ 5,674	\$ 2,034
San Diego Zoo Safari Park exhibits and equipment	1,161	8,065
Total restricted for capital investment	6,835	10,099
Restricted for programs:		
Facility programs	1,862	1,767
Education	1,182	944
Conservation and research	3,772	3,986
Total restricted for programs	6,816	6,697
Temporarily restricted portion of donor restricted endowments	12,339	6,412
Bequests and contributions receivable and split-interest agreements, net of obligations to beneficiaries under split-interest agreements	34,794	39,982
Donated property	3,700	4,670
Total temporarily restricted net assets	\$ 64,484	\$ 67,860

Note 12 - Endowment funds

Endowment funds: SDZ Global'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 SDZ Global'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 San Diego Zoo 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.

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Donor-restricted endowment funds are restricted for the following purposes:

	2013	2012
Conservation	\$ 24,638	\$ 24,537
Education	2,835	2,827
Facilities	9,204	6,414
Total donor-restricted endowment funds	\$ 36,677	\$ 33,778

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 SDZ Global 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 were no such deficiencies at year end 2013 and 2012.

Interpretation of relevant law: SDZ Global 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, SDZ Global 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, SDZ Global 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 SDZ Global 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 SDZ Global
7. SDZ Global's investment policy

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Return objectives and risk parameters: SDZ Global has adopted investment and spending policies for endowment assets that are 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 SDZ Global 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. The annual withdrawal target is 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: SDZ Global's target asset allocation for the years ended 2013 and 2012 is for 75% to 95% of the funds to be invested in public equity securities or equity mutual funds, of which not more than 50% of the portfolio is to be placed in less than investment grade securities, defined as securities having a Standard & Poor's rating of less than a B+ rating.

The endowment net asset composition by type of fund consists of the following as of year end 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 12,339	\$ 36,677	\$ 49,016
Board-designated endowment funds	70,903	-	-	70,903
Total endowment funds	\$ 70,903	\$ 12,339	\$ 36,677	\$ 119,919

The endowment net asset composition by type of fund consists of the following as of year end 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 6,412	\$ 33,778	\$ 40,190
Board-designated endowment funds	59,659	-	-	59,659
Total endowment funds	\$ 59,659	\$ 6,412	\$ 33,778	\$ 99,849

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The following table sets forth a summary of changes in endowment net assets for 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	\$ 59,659	\$ 6,412	\$ 33,778	\$ 99,849
Investment return:				
Investment income	1,371	865	-	2,236
Net appreciation (realized and unrealized)	12,668	7,042	-	19,710
Total investment return	14,039	7,907	-	21,946
Contributions	-		2,899	2,899
Appropriation of endowment assets for expenditure	(2,795)	(1,980)	-	(4,775)
Endowment net assets, end of year	<u>\$ 70,903</u>	<u>\$ 12,339</u>	<u>\$ 36,677</u>	<u>\$ 119,919</u>

The following table sets forth a summary of changes in endowment net assets for 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	\$ 54,508	\$ 1,351	\$ 30,792	\$ 86,651
Investment return:				
Investment income	1,468	830	-	2,298
Net appreciation (realized and unrealized)	9,983	5,255	-	15,238
Total investment return	11,451	6,085	-	17,536
Contributions	-	-	2,986	2,986
Appropriation of endowment assets for expenditure	(6,300)	(1,024)	-	(7,324)
Endowment net assets, end of year	<u>\$ 59,659</u>	<u>\$ 6,412</u>	<u>\$ 33,778</u>	<u>\$ 99,849</u>

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Note 13 - Pension and benefit plans

SDZ Global has defined benefit pension plans that cover substantially all of its full-time employees. The plans provide benefits based upon years of service and earnings. SDZ Global'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").

SDZ Global recognizes the overfunded or underfunded status of its defined pension plans as an asset or liability in its combined 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 benefit plans but not yet included in net periodic benefit cost in the combined statements of changes in net assets.

The funding status of SDZ Global's pension plans was as follows:

	2013	2012
Plan assets at fair value	\$ 136,830	\$ 112,603
Projected benefit obligation	(169,645)	(183,609)
Funded status	\$ (32,815)	\$ (71,006)
Accumulated benefit obligation	\$ 150,688	\$ 160,521

Weighted-average assumptions:

	2013	2012
Discount rate	5.30%	4.36%
Expected return on plan assets	7.50%	7.75%
Rate of compensation increase	3.0%	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 SDZ Global estimates will be generated on the assets of the plans. The rate of compensation increase reflects SDZ Global's best estimate of the future compensation levels of the individual employees covered by the plans.

As plan sponsor, SDZ Global oversees and administers the assets held by the pension plan entities. Certain disclosures of pension plan assets are included in the financial statements, but pension plan assets are not included in the combined statements of financial position. Plan assets are invested in equity and debt securities using separate investment funds. SDZ Global's management and the Board's investment committee monitor performance against benchmark indices.

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Return objectives and risk parameters: SDZ Global has adopted investment policies for pension assets that are meant to provide funding for pension retirement payments to current and future retirees of SDZ Global's pension plans. The primary objectives are to maximize long-term growth and minimize risk of loss of principal. In addition, SDZ Global 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, SDZ Global 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:

	2013	2012
Cash and cash equivalents	7%	5%
U.S. Government securities	8%	9%
Corporate debt securities	7%	9%
Mutual fund - equity	13%	15%
Marketable equity securities	64%	61%
Partnerships and other	1%	1%
	100%	100%

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 measure the fair value of certain assets as of year end 2013 and year end 2012. Only assets measured at fair value are shown on the three-tier value hierarchy.

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Pension assets measured at fair value on a recurring basis are as follows as of year end 2013:

	Total	Fair Value Measurements at Reporting Date Using			Valuation Techniques (a,b,c)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 9,872	\$ -	\$ 9,872	\$ -	a
U.S. Government securities	11,467	11,414	53	-	a
Corporate debt securities	8,763	-	8,763	-	a
Foreign issues	477	-	477	-	a
Domestic common stocks	67,246	67,242	4	-	a
Domestic preferred stocks	145	145	-	-	a
Foreign stocks	20,362	20,362	-	-	a
Mutual fund – equity	17,257	17,257	-	-	a
Partnerships and other	1,241	-	-	1,241	c
Total assets	\$ 136,830	\$ 116,420	\$ 19,169	\$ 1,241	

Pension assets measured at fair value on a recurring basis are as follows as of year end 2012:

	Total	Fair Value Measurements at Reporting Date Using			Valuation Techniques (a,b,c)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 5,476	\$ -	\$ 5,476	\$ -	a
U.S. Government securities	10,575	10,502	73	-	a
Corporate debt securities	9,459	-	9,459	-	a
Foreign issues	556	-	556	-	a
Domestic common stocks	52,168	52,168	-	-	a
Domestic preferred stocks	142	142	-	-	a
Foreign stocks	16,081	16,081	-	-	a
Mutual fund – equity	17,380	17,380	-	-	a
Partnerships and other	766	-	-	766	c
Total assets	\$ 112,603	\$ 96,273	\$ 15,564	\$ 766	

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The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2013:

	Level 3 Assets Year Ended December 29, 2013
Balance, beginning of year	\$ 766
Realized gains	49
Unrealized gains relating to instruments still held at the reporting date	91
Purchases	393
Sales	(58)
Balance, end of year	\$ 1,241

The following table represents SDZ Global's Level 3 financial instruments at year end 2013, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Partnerships and other	\$ 1,241	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A

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The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2012:

	Level 3 Assets Year Ended December 30, 2012
Balance, beginning of year	\$ 440
Realized losses	(20)
Unrealized gains relating to instruments still held at the reporting date	17
Purchases	385
Sales	(56)
Balance, end of year	\$ 766

The following table represents SDZ Global's Level 3 financial instruments at year end 2012, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Partnerships and other	\$ 766	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A

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The following table sets forth benefit cost and benefits paid for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Components of net periodic benefit cost:		
Actuarial charges:		
Interest cost	\$ 7,888	\$ 7,578
Expected return on assets	(8,456)	(7,300)
Net prior service cost amortization	689	689
Net loss amortization	3,187	2,818
Total actuarial charges	<u>3,308</u>	<u>3,785</u>
Employer service cost	<u>7,413</u>	<u>6,263</u>
Periodic benefit cost	<u>\$ 10,721</u>	<u>\$ 10,048</u>
Benefits paid	<u>\$ 3,319</u>	<u>\$ 3,132</u>
Administrative expenses paid	<u>\$ 124</u>	<u>\$ 118</u>
Employer contributions	<u>\$ 6,000</u>	<u>\$ 11,855</u>

Employer service costs of \$7,413, net prior service cost amortization of \$689 and investment losses of \$3,187 are recorded in pension expense for 2013. Prior service cost of \$6,290 and a cumulative actuarial loss of \$24,213 are included in unrestricted net assets at year end 2013. SDZ Global expects to record \$689 of net prior service cost amortization and \$458 of net loss amortization in 2014.

Employer service costs of \$6,263, net prior service cost amortization of \$689 and investment losses of \$2,818 are recorded in pension expense for 2012. Prior service cost of \$6,980 and a cumulative actuarial loss of \$66,436 are included in unrestricted net assets at year end 2012.

SDZ Global expects to make a total of \$6,775 in pension contributions during 2014.

The following table shows the amounts recognized in the combined statements of financial position at year end 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accrued benefit cost	<u>\$ 32,815</u>	<u>\$ 71,006</u>

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The following benefit payments are expected to be paid over the next 10 fiscal years:

2014	\$	4,531
2015		5,151
2016		5,664
2017		6,192
2018		7,035
2019-2023		47,618
	\$	<u>76,191</u>

SDZ Global 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. Matching contributions totaled \$1,116 and \$1,049 for 2013 and 2012, respectively.

Note 14 - Collective bargaining agreement

SDZ Global is a party to a collective bargaining agreement with a labor union. The agreement was renewed in March 2013 and goes through February 2017. At year end 2013, 1,390 employees or approximately 63% of total employees were represented by a labor union. At year end 2012, 1,394 employees or approximately 64% of the total employees were represented by a labor union.

Note 15 - Commitments and contingencies

Claims and legal actions: SDZ Global 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 combined financial position, results of operations or cash flows of SDZ Global.

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Lease agreements: SDZ Global has entered into certain noncancelable lease agreements for a warehouse facility and office space as well as cancelable and noncancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense totaled \$2,371 for 2013 and \$2,252 for 2012. Minimum lease payments under noncancelable operating leases as of year end 2013 are as follows:

2014	\$	1,218
2015		1,101
2016		941
2017		921
2018		157
	\$	<u>4,338</u>

Cooperative endeavor agreement: On January 15, 2013, SDZ Global and the Audubon Nature Institute entered into a cooperative endeavor agreement for the development of the Alliance for Sustainable Wildlife. It has been deemed that the infrastructure of the Freeport-McMoRan Audubon Species Survival Center in New Orleans lends itself to the development of husbandry areas that can house species that can make a valuable contribution to industry-wide conservation and sustainability goals. The terms of the agreement call for SDZ Global to provide a capital investment of at least \$6,000, but not to exceed \$10,000, in increments of not more than \$2,000 in any calendar year, over the first five years of the agreement. An initial payment of \$400 was made in 2013 for capital improvements, which are included in property and equipment in the statements of financial position. SDZ Global is also required to contribute 50 percent of each year's operating budget, up to \$500 per year during the same period.