

FINANCIAL STATEMENTS

The Detroit Zoological Society
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP



The Detroit Zoological Society

Financial Statements

Years Ended December 31, 2018 and 2017

Contents

Report of Independent Auditors.....1

Financial Statements

Statements of Financial Position.....3

Statements of Activities4

Statements of Cash Flows5

Notes to Financial Statements.....6



Ernst & Young LLP
One Kennedy Square
Suite 1000
777 Woodward Avenue
Detroit, MI 48226-5495

Tel: +1 313 628 7100
Fax: +1 313 628 7101
ey.com

Report of Independent Auditors

The Board of Directors
The Detroit Zoological Society

We have audited the accompanying financial statements of The Detroit Zoological Society, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Detroit Zoological Society at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 22, 2019

The Detroit Zoological Society

Statements of Financial Position

	December 31, 2018			December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ 9,951,155	\$ –	\$ 9,951,155	\$ 7,968,058	\$ –	\$ 7,968,058
Investments	16,659,619	6,920,600	23,580,219	16,245,892	7,601,614	23,847,506
Receivable from county authorities	9,908,000	–	9,908,000	9,477,000	–	9,477,000
Pledges receivable	108,384	852,849	961,233	123,160	1,893,807	2,016,967
Other receivables	351,267	55,753	407,020	322,638	–	322,638
Due (from) to other funds	(4,181,304)	4,181,304	–	(3,833,661)	3,833,661	–
Prepaid expenses	456,477	24,625	481,102	629,037	25,000	654,037
Building and equipment, net	586,965	–	586,965	760,484	–	760,484
Total assets	\$ 33,840,563	\$ 12,035,131	\$ 45,875,694	\$ 31,692,608	\$ 13,354,082	\$ 45,046,690
Liabilities and net assets						
Accounts payable and other	\$ 1,975,248	\$ –	\$ 1,975,248	\$ 1,695,013	\$ –	\$ 1,695,013
Accrued payroll and related liabilities	1,613,794	–	1,613,794	1,470,418	–	1,470,418
Deferred revenue	8,137,660	–	8,137,660	7,798,167	–	7,798,167
Agency accounts	166,109	–	166,109	82,814	–	82,814
Total liabilities	11,892,811	–	11,892,811	11,046,412	–	11,046,412
Net assets	21,947,752	12,035,131	33,982,883	20,646,196	13,354,082	34,000,278
Total liabilities and net assets	\$ 33,840,563	\$ 12,035,131	\$ 45,875,694	\$ 31,692,608	\$ 13,354,082	\$ 45,046,690

See accompanying notes.

The Detroit Zoological Society

Statements of Activities

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Revenue, gains, and other support						
Admissions, parking, and rentals	\$ 8,797,220	\$ –	\$ 8,797,220	\$ 8,605,758	\$ –	\$ 8,605,758
Membership dues	4,959,280	–	4,959,280	4,435,198	–	4,435,198
Special events	5,268,542	–	5,268,542	4,405,581	–	4,405,581
Concessions	2,032,990	–	2,032,990	2,248,609	–	2,248,609
Rides and attractions	2,383,434	–	2,383,434	1,620,059	–	1,620,059
Investment (loss) income	(533,363)	(380,514)	(913,877)	1,629,704	1,119,173	2,748,877
Other	138,916	–	138,916	151,793	–	151,793
Government and public support:						
County authority service agreements	12,697,424	–	12,697,424	12,424,949	–	12,424,949
City of Detroit	570,000	–	570,000	570,000	–	570,000
Other support:						
Contributions and annual gifts	4,415,807	1,957,309	6,373,116	4,153,108	3,919,809	8,072,917
Donated services and materials	3,020,018	500	3,020,518	2,966,304	–	2,966,304
Net assets released from restrictions:						
Satisfaction of program restrictions	2,896,246	(2,896,246)	–	3,075,933	(3,075,933)	–
Total revenue	46,646,514	(1,318,951)	45,327,563	46,286,996	1,963,049	48,250,045
Expenses						
Program:						
Animal care	8,424,984	–	8,424,984	7,719,234	–	7,719,234
Education	1,802,167	–	1,802,167	2,542,416	–	2,542,416
Donated services	2,950,974	–	2,950,974	2,965,843	–	2,965,843
Guest services	1,558,489	–	1,558,489	1,389,694	–	1,389,694
Membership services	1,021,605	–	1,021,605	1,016,861	–	1,016,861
Rides and attractions	2,292,841	–	2,292,841	1,452,192	–	1,452,192
Marketing and public relations	2,859,073	–	2,859,073	2,696,772	–	2,696,772
Maintenance and park operations	8,194,909	–	8,194,909	8,031,426	–	8,031,426
Other program services	4,560,799	–	4,560,799	5,037,039	–	5,037,039
Support services:						
Management and administrative	2,614,750	–	2,614,750	2,112,949	–	2,112,949
Fundraising	1,771,992	–	1,771,992	1,648,207	–	1,648,207
Total expenses	38,052,583	–	38,052,583	36,612,633	–	36,612,633
Excess of revenue over expenses	8,593,931	(1,318,951)	7,274,980	9,674,363	1,963,049	11,637,412
Other changes in net assets						
Capital acquisitions	(7,292,375)	–	(7,292,375)	(4,408,876)	–	(4,408,876)
Increase (decrease) in net assets	1,301,556	(1,318,951)	(17,395)	5,265,487	1,963,049	7,228,536
Net assets, beginning of year	20,646,196	13,354,082	34,000,278	15,380,709	11,391,033	26,771,742
Net assets, end of year	\$ 21,947,752	\$ 12,035,131	\$ 33,982,883	\$ 20,646,196	\$ 13,354,082	\$ 34,000,278

See accompanying notes.

The Detroit Zoological Society

Statements of Cash Flows

	Year Ended December 31	
	2018	2017
Operating activities		
(Decrease) increase in net assets	\$ (17,395)	\$ 7,228,536
Depreciation	263,951	231,632
Change in unrealized gain (loss)	1,971,338	(1,711,448)
Changes in operating assets and liabilities:		
Receivable from county authorities	(431,000)	(750,200)
Pledges receivable	1,055,734	1,253,905
Other receivables	(84,382)	(589)
Prepaid expenses	172,935	33,043
Accounts payable and other	280,235	(1,583,695)
Accrued payroll and related liabilities	143,376	145,032
Deferred revenue	339,493	578,306
Agency accounts	83,295	28,411
Net cash provided by operating activities	<u>3,777,580</u>	<u>5,452,933</u>
Investing activities		
Purchase of investments	(5,310,208)	(3,275,088)
Proceeds from sale of investments	3,606,157	3,188,311
Purchase of depreciable assets	(90,432)	(451,624)
Net cash used in investing activities	<u>(1,794,483)</u>	<u>(538,401)</u>
Net increase in cash	1,983,097	4,914,532
Balance at beginning of year	7,968,058	3,053,526
Balance at end of year	<u>\$ 9,951,155</u>	<u>\$ 7,968,058</u>

See accompanying notes.

The Detroit Zoological Society

Notes to Financial Statements

December 31, 2018

1. Organization

The Detroit Zoological Society (the Society) is a tax-exempt charitable organization. The Society's mission is "celebrating and saving wildlife" through excellence in animal management, educational programs and community activities while providing the Society's visitors and members with an enjoyable, recreational, family-oriented experience. There were 54,697 and 55,631 active memberships of the Society at December 31, 2018 and 2017, respectively.

Agreement with the City of Detroit

The Society entered into a Memorandum of Agreement (the City Agreement) with the City of Detroit (the City), acting through the Detroit Zoological Institute, whereby the Society agreed to take full responsibility for the governance, operations and management of the assets of the Detroit Zoo and the Belle Isle Nature Center (collectively, the Zoo), including identifying and securing sustainable non-City sources of revenue. The effective date of the City Agreement was May 25, 2006, and continues through June 30, 2030. There is an option to renew for ten-year terms, unless either party provides five years' written notice of its intent not to renew.

In the event the Society determines it is not economically feasible to continue its operation of the Zoo, the Society may effect an early termination of the City Agreement with a one-year notice of its intention to exercise early termination.

As part of the City Agreement, the City retains ownership of all animals, buildings, grounds, collections, artifacts, exhibits and selected furnishings. The Society received \$570,000 from the City during the years ended December 31, 2018 and 2017, for reimbursement of security and insurance costs, which were recorded in net assets without donor restrictions.

2. Summary of Significant Accounting Policies

Subsequent Events

The Society evaluates subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued or available to be issued, for recognition in the financial statements as of the balance sheet date. For the year ended December 31, 2018, the Society evaluated the impact of subsequent events through May 22, 2019, representing the date on which the accompanying financial statements were available to be issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure on the statements of financial position, statements of activities, or in the accompanying notes to the financial statements.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The financial statements of the Society have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. The Society's board may designate assets without restrictions for specific operational purposes from time to time. Refer to Note 5 for Board-Designated net assets.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time (temporarily restricted). Other donor restrictions are perpetual in nature whereby the donor has stipulated the funds be maintained in perpetuity (permanently restricted). Refer to Note 4 for temporarily and permanently restricted net assets.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Society considers all highly liquid instruments with maturity of three months or less when purchased to be cash equivalents.

The Society concentrates the bulk of its cash at JPMorgan Chase Bank, N.A. for cash management purposes. This typically results in cash investments exceeding Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2018, \$9,603,154 held at this bank exceeded the FDIC insurance limits of \$250,000.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable, which are unconditional promises to give, are recognized as revenue in the period such promises are received. Pledges are discounted to net realizable value.

Pledges receivable are recorded at amounts estimated to be collectible. The Society estimates its allowance for doubtful accounts by specific identification. Accounts are written off when the amount is believed to be uncollectible based on age from the contractual due date or donor economic circumstances. At December 31, 2018 and 2017, no allowance for doubtful accounts was recognized.

At December 31, 2018, the Society received conditional promises of \$1,010,000. The conditional promises are predicated on the Society raising matching funds. At December 31, 2018, the Society had not raised the necessary matching funds, and therefore, the related conditional pledges have not been recognized in the financial statements. Management expects that the necessary pledges will be raised in future periods.

Investments

The Society maintains investments consisting of diversified mutual funds designed to provide long-term financial support for current budget requirements and future capital expenditures. These investments are stated at fair market value, with any realized or unrealized gains and losses on those investments being reported net on the accompanying statements of activities. Investment income (loss) is presented net of investment fees on the statement of activities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). See Note 10 for further discussion and disclosure related to fair value measurements.

Building, Machinery and Equipment

The Society depreciates its membership building, machinery and equipment, which are recorded at cost, using the straight-line method over the estimated useful lives of the assets. Useful lives vary, but generally fall within the range of 5 to 20 years. According to the City Agreement, all assets remain the property of the City with the exception of the membership building, the simulator vehicles and office equipment that belonged to the Society at transition. Expenditures for maintenance and repairs are expensed as incurred.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounting for Assets Held by Community Foundation

The Society established an endowment through The Van Dusen Endowment Challenge program, initiated by The Kresge Foundation in partnership with the Community Foundation of Southeast Michigan (the Community Foundation). The Community Foundation holds and invests the funds. The Society receives a portion of the interest on these investments but may not withdraw the principal. The Community Foundation held endowment investments of \$1,804,646 and \$1,994,179 at December 31, 2018 and 2017, respectively. In fiscal 2009, another endowment was established with the Community Foundation from the Emory Ford Fund Foundation on the Society's behalf. Income received on the endowment investments for the years ended December 31, 2018 and 2017, was \$232,445 and \$234,353, respectively. Consistent with the provisions of Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, the Society does not record funds held by the Community Foundation, as the Community Foundation has variance authority.

Donated Services

The Society is the recipient of certain donated services, including the time of Board members of the Society and more than 1,000 volunteers giving their time performing services throughout the Zoo. The amount of donated services is included in both support and expenses when the value is objectively determinable at estimated fair value. Donated services reflected on the statements of activities consist primarily of volunteer time and promotional and advertising services.

Revenue and Support Recognition

Annual membership dues, contributions without donor restrictions, and annual gifts are recorded as revenue when such promises are received. All revenue is available for unrestricted use unless specifically restricted by the donor. When gifts of cash and other assets are received with donor stipulations that limit the use of the donations other than on a permanent basis, the Society reports these gifts as net assets with donor restrictions (temporarily restricted) support.

When a donor restriction expires (i.e., when a stipulated time restriction ends or a gift's restricted purpose is accomplished), net assets with donor restrictions (temporarily restricted) are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

When gifts of cash and other assets are received with donor restrictions that stipulate that such support be maintained permanently, yet permit the Society to expend part of or all of the income derived from the donated assets, the Society reports these gifts as permanently restricted assets.

Admissions, parking and convenience rental revenue (e.g., strollers, wagons and wheelchairs) is recognized as revenue as Zoo visitors pay and enter the facility. Special events, rides and attractions revenues are recognized as the services or events occur.

Revenue from the county authority service agreements is recognized over the fiscal year of the counties providing such support and is reported at estimated realizable amounts. Amounts received from the respective authorities are subject to retroactive adjustment should taxable values be changed upon appeal. Provisions for adjustments are recognized in the period they are estimable. As a result, it is possible that recorded estimates will change in the near term.

Deferred Revenue

The Society records revenue on an accrual basis. Revenue from county authority service agreements, gift cards, event rentals, sponsorship and other transactions that have not yet been earned is recorded in deferred revenue and classified as revenue when earned. The following is a summary of deferred revenue at December 31:

	<u>2018</u>	<u>2017</u>
County authority service agreement revenue	\$ 7,547,247	\$ 7,223,999
Gift cards	278,894	204,234
Rentals	243,037	243,221
Sponsorship	48,500	106,000
Other	19,982	20,713
Total	<u>\$ 8,137,660</u>	<u>\$ 7,798,167</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Federal Income Taxes

The Society has been recognized by the Internal Revenue Service as an organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code (the Code). The Society is a public charity by reason of being described in the Code Section 509(a)(2). The Society is exempt from federal income taxes except to the extent of income derived from unrelated business activities. Unrelated business income is not material to the financial statements.

The Society completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that no amounts were required to be recognized in the financial statements at December 31, 2018 or 2017.

Advertising Expense

Advertising is expensed when incurred. For the years ended December 31, 2018 and 2017, advertising costs of \$1,129,466 and \$1,342,361, respectively, were expensed, of which \$465,980 and \$464,568, respectively, were donated.

Works of Art

The Society maintains numerous works of art accumulated over the years. Consistent with financial statement presentations followed by other institutions (primarily museums), the Society excludes the value of its works of art from the statements of financial position. The works of art are held for educational and exhibition purposes.

New Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will change how entities measure many equity investments and present changes in fair value of financial liabilities measured under the fair value option that are attributable to their own creditors. The new guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The implementation of this standard is not expected to have a material impact on the Society's financial statements or disclosures.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In July 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the FASB's standard by one year and permits early adoption on a limited basis. ASU 2014-09, issued jointly with the International Accounting Standards Board, issues guidance that will supersede nearly all previously issued revenue recognition under U.S. GAAP, including that related to the presentation of the provision for doubtful accounts. ASU 2014-09 requires an entity to recognize revenue when it provides services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those services, including a collectability threshold for determining when revenue can be recognized on the transaction. The guidance is effective for the Society beginning on January 1, 2019. The Society does not expect that the effect of adopting ASU 2014-09 will be material on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 simplifies and improves the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance became effective December 31, 2018, and the impact is reflected in the financial statements and disclosures and was applied retrospectively; however, the Society elected the practical expedient not to present expenses by their natural and functional classification for the comparative period.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the period shown on the statement of cash flows. The guidance is effective for the Society for periods beginning after December 15, 2018. The implementation of this standard is not expected to have a material impact on the Society's financial statements or disclosures.

The Detroit Zoological Society

Notes to Financial Statements (continued)

3. County Authority Services Agreements

During 2008, the counties of Macomb, Oakland and Wayne established Zoological Authorities (the Authorities) pursuant to Public Act 49, the Zoological Authorities Act. The Authorities entered into separate service agreements with the Society, which provided for the continued provision of zoological services to residents of the respective counties upon receipt of tax monies levied by the respective Authorities.

On August 5, 2008, the voters in the respective counties approved the levies of tax on real and personal property for a period of ten years, to expire in 2017. During 2016, the voters in the respective counties voted to approve the extension of the millage through 2027. The millage rate approved was 0.1 mill per \$1,000 of taxable value and was based on property appraisals to provide revenue annually to the Society. The Society has recognized such revenue over the respective county fiscal period and Society fiscal year. During the years ended December 31, 2018 and 2017, the Society has recognized \$12,697,424 and \$12,424,949, respectively, of service contract revenue under the agreements. Due to the uncertainty in tax collections and amounts under appeal, there is at least a reasonable possibility that recorded estimates will change in the near term. The Society has recognized an allowance of \$155,000 at December 31, 2018 and 2017.

4. Net Assets With Donor Restrictions (Temporarily and Permanently Restricted Net Assets)

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2018	2017
Animal care	\$ 390,392	\$ 423,998
Capital projects	2,679,783	3,255,543
Programs:		
Education	1,057,766	1,034,483
Other	712,053	914,274
Total	\$ 4,839,994	\$ 5,628,298

The Detroit Zoological Society

Notes to Financial Statements (continued)

4. Net Assets With Donor Restrictions (Temporarily and Permanently Restricted Net Assets) (continued)

Permanently restricted net assets are restricted for the following purposes:

	December 31	
	2018	2017
Education program	\$ 2,833,995	\$ 2,982,873
Maintenance and acquisition of art collection	1,219,266	1,339,118
General operations	742,339	815,208
Animal care	557,312	612,689
Discretionary	378,581	416,194
Child admission	625,955	676,165
Animal conservation	837,689	883,537
Total	<u>\$ 7,195,137</u>	<u>\$ 7,725,784</u>

5. Board-Designated Net Assets

At December 31, 2018 and 2017, investments of \$12,534,750 and \$12,390,246, respectively, were designated by the Board of Directors for endowment and are included in net assets without donor restrictions on the accompanying statements of financial position.

At December 31, 2018 and 2017, net assets of the Society have been designated by the Board of Directors for capital purposes in the amount of \$2,370,000 and \$2,187,901, respectively, and operating purposes in the amount of \$6,000,000 and \$6,000,000, respectively, and are included in net assets without donor restrictions on the accompanying statements of financial position.

The Detroit Zoological Society

Notes to Financial Statements (continued)

6. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. These expenses are net of interest income transferred into a temporary restricted fund from the endowment fund. Donor-restricted net assets were released from restrictions after accomplishment of the following purposes:

	December 31	
	2018	2017
Animal care	\$ 100,204	\$ 28,793
Capital projects	2,075,644	2,599,834
Programs:		
General operations	390,000	165,000
Education	284,631	194,985
Art acquisition and maintenance	45,767	87,321
	\$ 2,896,246	\$ 3,075,933

7. Investments

The aggregate carrying amounts of investments at fair value by major type are as follows:

	December 31	
	2018	2017
Cash equivalents	\$ 6,378,714	\$ 5,227,333
Publicly traded mutual funds:		
Fixed income	4,472,090	4,875,135
Blended funds	1,213,590	1,306,787
Traditional equities	11,515,825	12,438,251
	\$ 23,580,219	\$ 23,847,506

The Detroit Zoological Society

Notes to Financial Statements (continued)

7. Investments (continued)

Investment (loss) income included in revenue is summarized as follows:

	Year Ended December 31	
	2018	2017
Interest, dividends and fees	\$ 875,164	\$ 789,368
Net realized gains	182,298	248,062
Net unrealized (loss) gains	(1,971,339)	1,711,447
Net investment (loss) income	\$ (913,877)	\$ 2,748,877

8. Expenditures

The Board of Directors of the Society approves the nature and amount of anticipated program service expenditures for the succeeding year as part of the annual budgeting process. Those program services projects, which, in either nature or amount, were unanticipated at that time are brought to the Board of Directors for approval during the year on a project-by-project basis. Expenditures are funded largely from revenue and support generated in the year of the project, and, to the extent approved expenditures exceed such available amounts, the excess essentially constitutes a designation of net assets without donor restriction.

9. Pledges Receivable

Unconditional contributions and gifts pledged, but not received, are included in pledges receivable on the statements of financial position.

Pledges receivable are expected to be collected as follows:

	December 31	
	2018	2017
Less than one year	\$ 763,960	\$ 1,402,330
One to five years	197,273	614,637
	\$ 961,233	\$ 2,016,967

The amounts are recorded at the estimated present value of future cash flows.

The Detroit Zoological Society

Notes to Financial Statements (continued)

10. Fair Value Measurements

ASC 820, *Fair Value Measurement*, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As of December 31, 2018 and 2017, the assets listed in the fair value hierarchy tables below are all publicly traded mutual funds. The fair values of the fixed-income, blended funds and traditional equity securities are based on the closing price reported on the active market on which the individual securities are traded.

The Detroit Zoological Society

Notes to Financial Statements (continued)

10. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value as of December 31 by caption on the statements of financial position:

	2018			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 9,951,155	\$ —	\$ —	\$ 9,951,155
Investments				
Cash equivalents	6,378,714	—	—	6,378,714
Publicly traded mutual funds:				
Fixed income	4,472,090	—	—	4,472,090
Blended funds	1,213,590	—	—	1,213,590
Traditional equities	11,515,825	—	—	11,515,825
	<u>\$ 33,531,374</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,531,374</u>

	2017			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 7,968,058	\$ —	\$ —	\$ 7,968,058
Investments				
Cash equivalents	5,227,333	—	—	5,227,333
Publicly traded mutual funds:				
Fixed income	4,875,135	—	—	4,875,135
Blended funds	1,306,787	—	—	1,306,787
Traditional equities	12,438,251	—	—	12,438,251
	<u>\$ 31,815,564</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 31,815,564</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

10. Fair Value Measurements (continued)

The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments and have carrying values that approximate fair value.

11. Endowment

The Society's endowment consists of 14 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society follows Michigan's State Management of Institutional Funds Act (SMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with standards prescribed by SMIFA. In accordance with SMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Society and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Society
7. The investment policies of the Society

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specific period, as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places emphasis on equity-based and fixed-income investments to achieve its long-term objective within prudent risk constraints.

The Society is to record the annual income as temporarily restricted and appropriated for expenditure upon meeting donor stipulations. If donor stipulations are broad, the annual income is recognized as without donor restrictions. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 5%. This is consistent with the organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

At December 31, 2018, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	\$ —	\$ 8,658,447	\$ 8,658,447
Board-designated funds	12,534,750	—	12,534,750
Ending net assets	<u>\$ 12,534,750</u>	<u>\$ 8,658,447</u>	<u>\$ 21,193,197</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2018, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning net assets	\$ 12,390,246	\$ 9,040,431	\$ 21,430,677
Investment income (loss):			
Interest, dividends and fees	451,379	298,771	750,150
Realized and unrealized losses	(1,060,595)	(699,285)	(1,759,880)
Endowment income for use	(20,000)	20,000	–
Total investment loss	(629,216)	(380,514)	(1,009,730)
Contributions	373,720	248,851	622,571
Funds released from restrictions	–	(250,321)	(250,321)
Other changes	400,000	–	400,000
Ending net assets	<u>\$ 12,534,750</u>	<u>\$ 8,658,447</u>	<u>\$ 21,193,197</u>

At December 31, 2017, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	\$ –	\$ 9,040,431	\$ 9,040,431
Board-designated funds	12,390,246	–	12,390,246
Ending net assets	<u>\$ 12,390,246</u>	<u>\$ 9,040,431</u>	<u>\$ 21,430,677</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2017, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning net assets	\$ 9,365,264	\$ 7,965,527	\$ 17,330,791
Investment income:			
Interest, dividends and fees	417,362	291,919	709,281
Realized and unrealized gains	1,173,106	807,254	1,980,360
Endowment income for use	(20,000)	20,000	–
Total investment income	1,570,468	1,119,173	2,689,641
Contributions	654,514	127,600	782,114
Funds released from restrictions	–	(215,867)	(215,867)
Other changes	800,000	43,998	843,998
Ending net assets	\$ 12,390,246	\$ 9,040,431	\$ 21,430,677

12. Employee Retirement Benefits

Effective April 1, 1999, the Society converted the former Profit Sharing Plan and Trust (the Plan) (placed into service April 1, 1992) into a defined contribution retirement plan in accordance with the provisions of Section 401(k) of the Code. The Plan covers substantially all full-time employees of the Society who have at least three months of service and are age 21 or older. Participants may contribute up to the lesser of 90% of eligible compensation or \$18,500 in calendar year 2018. A profit-sharing contribution may be contributed at the discretion of the Society's Board of Directors. In addition to meeting the general eligibility requirements of the Plan, employees must have completed 501 hours of service or be an active employee on the last day of the plan year to be eligible for profit-sharing contributions. The Society's matching contributions to the Plan were \$523,458 and \$484,464 for the years ended December 31, 2018 and 2017, respectively. The Society's profit-sharing contribution to the Plan was \$0 for the years ended December 31, 2018 and 2017.

The Detroit Zoological Society

Notes to Financial Statements (continued)

13. Concession and Merchandising Contract with Service Systems Associates, Inc. (SSA)

SSA operates the food services and retail operations at the Zoo through a contract that commenced on January 1, 2011. The payment to the Society is on a commission basis based on sales with a minimum guaranteed payment based on attendance. The contract further provides that SSA will contribute 3% of non-Society catering revenue annually towards the promotion of special events at the Zoo. It will also contribute \$12,500 to the Society's annual fundraiser. SSA has agreed to fund approximately \$2,600,000 in capital improvements to the Zoo's facilities per the contract. As of December 31, 2018, all of the capital improvements to the Zoo's facilities were completed. The agreement with SSA has been extended until December 31, 2020.

14. Functional Expenses

The Society's expenses by their natural and functional classification for the year ended December 31, 2018, were as follows:

	Program Activities				Supporting Activities				Total Expenses
	Animal Care, Welfare and Conservation	Education and Sustainability	Guest Engagement	Programs Subtotal	Administrative Support	Facilities and Operation and Maintenance	Fundraising	Supporting Subtotal	
Salaries and benefits	\$ 6,752,253	\$ 2,064,971	\$ 4,046,456	\$ 12,863,680	\$ 3,390,317	\$ 3,613,556	\$ 1,224,482	\$ 8,228,355	\$ 21,092,035
Grants to other organizations	543,738	–	–	543,738	–	–	–	–	543,738
Supplies and travel	958,655	153,073	1,412,159	2,523,887	449,522	714,907	380,772	1,545,201	4,069,088
Services and professional fees	815,109	458,290	2,121,504	3,394,903	1,185,187	4,655,146	293,650	6,133,983	9,528,886
Office and occupancy	5,776	1,817	12,001	19,594	456,125	2,071,827	3,704	2,531,656	2,551,250
Depreciation and interest	–	–	–	–	3,635	263,951	–	267,586	267,586
Total expenses	<u>\$ 9,075,531</u>	<u>\$ 2,678,151</u>	<u>\$ 7,592,120</u>	<u>\$ 19,345,802</u>	<u>\$ 5,484,786</u>	<u>\$ 11,319,387</u>	<u>\$ 1,902,608</u>	<u>\$ 18,706,781</u>	<u>\$ 38,052,583</u>

The Society does not allocate costs between program and supporting functions.

The Detroit Zoological Society

Notes to Financial Statements (continued)

14. Functional Expenses (continued)

As permitted by ASU 2016-14, the Society elected the practical expedient not to present expenses by their natural and functional classification for the comparative period. For the year ended December 31, 2017, the Society's operating expenses by type were as follows:

Personnel expenses	\$ 19,618,287
Overhead/occupancy	2,916,711
Donated services	2,965,843
Supplies	1,638,299
Professional services	863,043
Contracted services	3,144,091
Computer and office equipment	385,815
Repair and maintenance	730,550
Animal care	1,656,845
Advertising and marketing	1,342,361
Exhibits	195,934
Events and fundraising	362,905
Depreciation and interest	240,938
Travel	209,198
Other expenses	341,813
Total expenses	<u>\$ 36,612,633</u>

15. Liquidity and Availability

As of December 31, 2018, the Society's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash and cash equivalents	\$ 9,951,155
Investments	16,659,619
Less: amounts due to donor restricted	(4,181,304)
County receivable	9,908,000
Pledges receivable	108,384
Other receivables	351,267
	<u>\$ 32,797,121</u>

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Society invests cash in excess of daily requirements in investments.

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