

FINANCIAL STATEMENTS

The Detroit Zoological Society
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



The Detroit Zoological Society

Financial Statements

Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Change in Revenue Recognition

As discussed in Note 2 to the financial statements, The Detroit Zoological Society adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2018-18 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and changed the accounting for certain revenue transactions effective January 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

June 16, 2020

The Detroit Zoological Society

Statements of Financial Position

	December 31, 2019			December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ 7,159,062	\$ –	\$ 7,159,062	\$ 9,951,155	\$ –	\$ 9,951,155
Investments	21,654,926	8,079,995	29,734,921	16,659,619	6,920,600	23,580,219
Receivable from county authorities	2,390,000	–	2,390,000	9,908,000	–	9,908,000
Pledges receivable	104,323	2,572,597	2,676,920	108,384	852,849	961,233
Other receivables	372,147	86,143	458,290	351,267	55,753	407,020
Due (from) to other funds	(3,708,900)	3,708,900	–	(4,181,304)	4,181,304	–
Prepaid expenses	744,543	25,400	769,943	456,477	24,625	481,102
Building and equipment, net	789,839	–	789,839	586,965	–	586,965
Total assets	<u>\$ 29,505,940</u>	<u>\$ 14,473,035</u>	<u>\$ 43,978,975</u>	<u>\$ 33,840,563</u>	<u>\$ 12,035,131</u>	<u>\$ 45,875,694</u>
Liabilities and net assets						
Accounts payable and other	\$ 2,432,644	\$ –	\$ 2,432,644	\$ 1,975,248	\$ –	\$ 1,975,248
Accrued payroll and related liabilities	1,756,259	–	1,756,259	1,613,794	–	1,613,794
Deferred revenue	2,960,301	–	2,960,301	8,137,660	–	8,137,660
Agency accounts	102,117	–	102,117	166,109	–	166,109
Total liabilities	<u>7,251,321</u>	<u>–</u>	<u>7,251,321</u>	<u>11,892,811</u>	<u>–</u>	<u>11,892,811</u>
Net assets	<u>22,254,619</u>	<u>14,473,035</u>	<u>36,727,654</u>	<u>21,947,752</u>	<u>12,035,131</u>	<u>33,982,883</u>
Total liabilities and net assets	<u>\$ 29,505,940</u>	<u>\$ 14,473,035</u>	<u>\$ 43,978,975</u>	<u>\$ 33,840,563</u>	<u>\$ 12,035,131</u>	<u>\$ 45,875,694</u>

See accompanying notes.

The Detroit Zoological Society

Statements of Activities

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support						
Admissions, parking, and rentals	\$ 8,703,344	\$ –	\$ 8,703,344	\$ 8,797,220	\$ –	\$ 8,797,220
Membership dues	4,969,991	–	4,969,991	4,959,280	–	4,959,280
Special events	4,514,472	3,181	4,517,653	5,268,542	–	5,268,542
Concessions	1,984,684	–	1,984,684	2,032,990	–	2,032,990
Rides and attractions	1,414,635	–	1,414,635	2,383,434	–	2,383,434
Investment income (loss)	2,751,932	1,467,495	4,219,427	(533,363)	(380,514)	(913,877)
Other	132,801	–	132,801	138,916	–	138,916
Government and public support:						
County authority service agreements	13,256,802	–	13,256,802	12,697,424	–	12,697,424
City of Detroit	570,000	–	570,000	570,000	–	570,000
Other support:						
Contributions and annual gifts	4,308,075	3,501,945	7,810,020	4,415,807	1,957,309	6,373,116
Donated services and materials	2,791,547	–	2,791,547	3,020,018	500	3,020,518
Net assets released from restrictions:						
Satisfaction of program restrictions	2,534,717	(2,534,717)	–	2,896,246	(2,896,246)	–
Total revenue	47,933,000	2,437,904	50,370,904	46,646,514	(1,318,951)	45,327,563
Expenses						
Program:						
Animal care	8,736,090	–	8,736,090	8,424,984	–	8,424,984
Education	2,278,036	–	2,278,036	1,802,167	–	1,802,167
Donated services	2,804,667	–	2,804,667	2,950,974	–	2,950,974
Guest services	2,684,989	–	2,684,989	2,569,377	–	2,569,377
Membership services	1,058,232	–	1,058,232	1,021,605	–	1,021,605
Rides and attractions	1,497,580	–	1,497,580	2,292,841	–	2,292,841
Marketing and public relations	1,794,484	–	1,794,484	1,848,185	–	1,848,185
Maintenance and park operations	8,622,622	–	8,622,622	8,194,909	–	8,194,909
Other program services	4,975,428	–	4,975,428	4,560,799	–	4,560,799
Support services:						
Management and administrative	2,666,580	–	2,666,580	2,614,750	–	2,614,750
Fundraising	1,937,111	–	1,937,111	1,771,992	–	1,771,992
Total expenses	39,055,819	–	39,055,819	38,052,583	–	38,052,583
Excess of revenue over expenses (expenses over revenue)	8,877,181	2,437,904	11,315,085	8,593,931	(1,318,951)	7,274,980
Other changes in net assets						
Transfer of board-designated funds						
Capital acquisitions	(6,245,776)	–	(6,245,776)	(7,292,375)	–	(7,292,375)
Increase (decrease) in net assets	2,631,405	2,437,904	5,069,309	1,301,556	(1,318,951)	(17,395)
Net assets, beginning of year	21,947,752	12,035,131	33,982,883	20,646,196	13,354,082	34,000,278
Cumulative effect adjustment related to revenue recognition	(2,324,538)	–	(2,324,538)	–	–	–
Net assets as adjusted, beginning of year	19,623,214	12,035,131	31,658,345	20,646,196	13,354,082	34,000,278
Net assets, end of year	\$ 22,254,619	\$ 14,473,035	\$ 36,727,654	\$ 21,947,752	\$ 12,035,131	\$ 33,982,883

See accompanying notes.

The Detroit Zoological Society

Statements of Cash Flows

	Year Ended December 31	
	2019	2018
Operating activities		
Increase (decrease) in net assets	\$ 5,069,309	\$ (17,395)
Depreciation	250,284	263,951
Change in unrealized (gain) loss	(3,184,474)	1,971,338
Changes in operating assets and liabilities:		
Receivable from county authorities	7,518,000	(431,000)
Pledges receivable	(1,715,687)	1,055,734
Other receivables	(51,270)	(84,382)
Prepaid expenses	(288,841)	172,935
Accounts payable and other	457,396	280,235
Accrued payroll and related liabilities	142,465	143,376
Deferred revenue	(7,501,897)	339,493
Agency accounts	(63,992)	83,295
Net cash provided by operating activities	<u>631,293</u>	<u>3,777,580</u>
Investing activities		
Purchase of investments	(14,898,288)	(5,310,208)
Proceeds from sale of investments	11,928,060	3,606,157
Purchase of depreciable assets	(453,158)	(90,432)
Net cash used in investing activities	<u>(3,423,386)</u>	<u>(1,794,483)</u>
Net (decrease) increase in cash	(2,792,093)	1,983,097
Balance at beginning of year	9,951,155	7,968,058
Balance at end of year	<u>\$ 7,159,062</u>	<u>\$ 9,951,155</u>

See accompanying notes.

The Detroit Zoological Society

Notes to Financial Statements

December 31, 2019

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 48,480 and 54,697 active memberships of the Society at December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019, the Society evaluated the impact of subsequent events through June 16, 2020, 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, except for the matters discussed in Note 16.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying 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.

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation. The Society has reclassified \$1,010,888 from marketing and public relations to guest services on the statement of activities for the year ended December 31, 2018 to be consistent with the 2019 presentation. The reclassifications did not change the decrease in net assets or the net asset amount previously reported.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 2019, \$6,830,111 held at this bank exceeded the FDIC insurance limits of \$250,000.

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, 2019 and 2018, no allowance for doubtful accounts was recognized.

As of December 31, 2019 and 2018, the Society had outstanding conditional promises of \$1,010,000. The conditional promises are predicated on the Society raising matching funds. As of December 31, 2019 and 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 statements 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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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 \$2,040,932 and \$1,804,646 at December 31, 2019 and 2018, 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, 2019 and 2018, was \$235,361 and \$232,445, 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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue and Support Recognition

The Society has adopted Accounting Standards Update No. (ASU) 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended using the modified retrospective adoption method on January 1, 2019, to reflect the recognition of membership revenue over time. Membership dues are nonrefundable and are recognized over the term of the contract (i.e., 12 months). Accordingly, the 2019 financial statements have been adjusted to be in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers*. The adjustment was applied to all membership contracts that were not complete as of January 1, 2019, which resulted in a \$2,324,538 increase to membership contract liabilities and a corresponding decrease to change in net assets and net assets without donor restrictions at January 1, 2019. Membership dues on the statement of activities for the year ended December 31, 2019 increased by \$7,155 and deferred revenue for membership dues as of December 31, 2019, increased \$2,317,383 as a result of adopting the standard.

The Society adopted ASU No. 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective approach effective January 1, 2019. The adoption of this standard modified the Society's accounting for the county authority service agreements. County authority service agreements are considered conditional contributions due to a performance related barrier, which requires the Society to maintain its zoological operations throughout the year. Accordingly, the contributions are recognized when the performance related barrier is overcome. There was no impact on the statement of activities related to this change. The impact of adopting the standard on the statement of financial position was a reduction of \$7,635,000 in deferred revenue and the receivable from county authorities at December 31, 2019. The adoption of the standard had no impact on net cash provided by operating activities on the statement of cash flows for the year ended December 31, 2019.

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.

Contributions from the county authority service agreements is recognized over the fiscal year of the counties, as the performance related barrier is overcome, 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 received.

Deferred Revenue

The Society records revenue on an accrual basis. Revenue from county authority service agreements (before adoption of ASU No. 2018-08), memberships, 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>2019</u>	<u>2018</u>
County authority service agreement revenue	\$ —	\$ 7,547,247
Membership dues	2,317,383	—
Gift cards	345,905	278,894
Rentals	243,491	243,037
Sponsorship	45,000	48,500
Other	8,522	19,982
Total	<u>\$ 2,960,301</u>	<u>\$ 8,137,660</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, 2019 or 2018.

Advertising Expense

Advertising is expensed when incurred. For the years ended December 31, 2019 and 2018, advertising costs of \$1,524,548 and \$1,129,466, respectively, were expensed, of which \$713,059 and \$465,980, 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 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 the Society beginning on January 1, 2019. The implementation of this standard did not have an impact on the Society's accompanying 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.

During 2016, the voters in the respective counties voted to approve the extension of the millage through 2028. 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 contributions over the respective county fiscal period and Society fiscal year. During the years ended December 31, 2019 and 2018, the Society has recognized \$13,256,802 and \$12,697,424, respectively, of contributions 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, 2019 and 2018.

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

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2019	2018
Animal care	\$ 604,120	\$ 390,392
Capital projects	3,369,271	2,679,783
Programs:		
Education	1,170,400	1,057,766
Other	869,992	712,053
Total	\$ 6,013,783	\$ 4,839,994

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	
	2019	2018
Education program	\$ 3,395,878	\$ 2,833,995
Maintenance and acquisition of art collection	1,424,301	1,219,266
General operations	867,270	742,339
Animal care	651,088	557,312
Discretionary	442,238	378,581
Child admission	705,845	625,955
Animal conservation	972,632	837,689
Total	<u>\$ 8,459,252</u>	<u>\$ 7,195,137</u>

5. Board-Designated Net Assets

At December 31, 2019 and 2018, investments of \$15,277,376 and \$12,534,750, 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, 2019 and 2018, net assets of the Society have been designated by the Board of Directors for capital purposes in the amount of \$1,691,771 and \$2,370,000, respectively, and operating purposes in the amount of \$6,019,841 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	
	2019	2018
Animal care	\$ 78,485	\$ 100,204
Capital projects	2,151,905	2,075,644
Programs:		
General operations	57,613	390,000
Education	140,192	284,631
Art acquisition and maintenance	106,522	45,767
	\$ 2,534,717	\$ 2,896,246

7. Investments

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

	December 31	
	2019	2018
Cash equivalents	\$ 1,167,904	\$ 6,378,714
Publicly traded mutual funds:		
Fixed income	7,806,864	4,472,090
Blended funds	—	1,213,590
Traditional equities	20,760,153	11,515,825
	\$ 29,734,921	\$ 23,580,219

The Detroit Zoological Society

Notes to Financial Statements (continued)

7. Investments (continued)

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

	Year Ended December 31	
	2019	2018
Interest, dividends, and fees	\$ 990,211	\$ 875,164
Net realized gains	44,742	182,298
Net unrealized gains (loss)	3,184,474	(1,971,339)
Net investment income (loss)	<u>\$ 4,219,427</u>	<u>\$ (913,877)</u>

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	
	2019	2018
Less than one year	\$ 2,513,992	\$ 763,960
One to five years	162,928	197,273
	<u>\$ 2,676,920</u>	<u>\$ 961,233</u>

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, 2019 and 2018, 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:

	2019			
	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	\$ 7,159,062	\$ —	\$ —	\$ 7,159,062
Investments				
Cash equivalents	1,167,904	—	—	1,167,904
Publicly traded mutual funds:				
Fixed income	7,806,864	—	—	7,806,864
Traditional equities	20,760,153	—	—	20,760,153
	\$ 36,893,983	\$ —	\$ —	\$ 36,893,983

	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
	\$ 33,531,374	\$ —	\$ —	\$ 33,531,374

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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

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, 2019, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	\$ —	\$ 10,219,673	\$ 10,219,673
Board-designated funds	15,277,375	—	15,277,375
Ending net assets	<u>\$ 15,277,375</u>	<u>\$ 10,219,673</u>	<u>\$ 25,497,048</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2019, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning net assets	\$ 12,534,750	\$ 8,658,447	\$ 21,193,197
Investment income (loss):			
Interest, dividends and fees	488,304	255,686	743,990
Realized and unrealized losses	1,932,765	1,191,810	3,124,575
Endowment income for use	(20,000)	20,000	–
Total investment loss	2,401,069	1,467,496	3,868,565
Contributions	341,556	344,005	685,561
Funds released from restrictions	–	(385,296)	(385,296)
Other changes	–	135,021	135,021
Ending net assets	<u>\$ 15,277,375</u>	<u>\$ 10,219,673</u>	<u>\$ 25,497,048</u>

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	\$ 12,534,750	\$ 8,658,447	\$ 21,193,197

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 \$19,000 in calendar year 2019. 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 \$555,221 and \$523,458 for the years ended December 31, 2019 and 2018, respectively. The Society's profit-sharing contribution to the Plan was \$0 for the years ended December 31, 2019 and 2018.

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 toward 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, 2019, 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, 2019, 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	\$ 7,010,659	\$ 2,192,154	\$ 4,037,846	\$ 13,240,659	\$ 3,361,599	\$ 3,966,257	\$ 1,341,778	\$ 8,669,634	\$ 21,910,293
Grants to other organizations	471,246	—	—	471,246	—	—	—	—	471,246
Supplies and travel	978,701	236,023	842,048	2,056,772	509,486	686,752	394,209	1,590,447	3,647,219
Services and professional fees	930,364	683,145	2,093,499	3,707,008	1,186,047	4,997,978	350,106	6,534,131	10,241,139
Office and occupancy	9,004	1,558	23,634	34,196	437,159	2,036,920	2,526	2,476,605	2,510,801
Depreciation and interest	—	—	—	—	10,102	265,019	—	275,121	275,121
Total expenses	\$ 9,399,974	\$ 3,112,880	\$ 6,997,027	\$ 19,509,881	\$ 5,504,393	\$ 11,952,926	\$ 2,088,619	\$ 19,545,938	\$ 39,055,819

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	\$ 9,075,531	\$ 2,678,151	\$ 7,592,120	\$ 19,345,802	\$ 5,484,786	\$ 11,319,387	\$ 1,902,608	\$ 18,706,781	\$ 38,052,583

The Society allocates certain costs between program and supporting functions.

The Detroit Zoological Society

Notes to Financial Statements (continued)

15. Liquidity and Availability

The Society's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	December 31	
	2019	2018
Cash and cash equivalents	\$ 7,159,062	\$ 9,951,155
Investments	21,654,926	16,659,619
Less: amounts due to donor restricted	(3,708,900)	(4,181,304)
County receivable	2,390,000	9,908,000
Pledges receivable	104,323	108,384
Other receivables	372,147	351,267
	<u>\$ 27,971,558</u>	<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.

16. Subsequent Events

The current worldwide pandemic, caused by the novel coronavirus known as COVID-19 adversely impacted the Society's operations by causing a temporary shutdown of the Society's facilities beginning in March 2020. On June 8, 2020, the Society resumed operations on a limited basis.

In response to the COVID-19 pandemic, The Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic, stimulate the U.S. economy and provide assistance to affected industries. The CARES Act includes a Paycheck Protection Program (the PPP), which is a \$350 billion program intended to provide small businesses with eight weeks of cash-flow assistance through 100% federally guaranteed loans. The Society applied for and was approved for a loan in the amount of \$3,911,498 under the PPP. Under the terms of the loan agreement, the loan will be forgiven to the extent the funds are used for payroll, health benefits, rent, or utilities, during the eligible period of use. While management expects that the loan will be forgiven, no assurances can be provided that the Society will qualify for such forgiveness.

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