

FINANCIAL STATEMENTS

The Detroit Zoological Society
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



The Detroit Zoological Society

Financial Statements

Years Ended December 31, 2021 and 2020

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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

Opinion

We have audited the financial statements of The Detroit Zoological Society (the Society), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that we identified during the audit.

Ernst & Young LLP

June 7, 2022

The Detroit Zoological Society

Statements of Financial Position

	December 31, 2021			December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Assets					
Cash and cash equivalents	\$ 18,655,986	\$ –	\$ 18,655,986	\$ 10,199,596	\$ –	\$ 10,199,596
Investments	33,611,469	10,732,273	44,343,742	25,364,910	9,366,334	34,731,244
Receivable from county authorities	2,702,497	–	2,702,497	2,485,000	–	2,485,000
Pledges receivable	373,292	2,528,133	2,901,425	72,648	1,912,795	1,985,443
Other receivables	523,543	43,678	567,221	709,863	37,280	747,143
Due (from) to other funds	(5,685,979)	5,685,979	–	(5,064,382)	5,064,382	–
Prepaid expenses	789,458	9,800	799,258	442,912	9,800	452,712
Building and equipment, net	1,049,628	–	1,049,628	668,685	–	668,685
Total assets	\$ 52,019,894	\$ 18,999,863	\$ 71,019,757	\$ 34,879,232	\$ 16,390,591	\$ 51,269,823
Liabilities and net assets						
Accounts payable and other	\$ 2,578,210	\$ 26,681	\$ 2,604,891	\$ 1,402,348	\$ 26,682	\$ 1,429,030
Accrued payroll and related liabilities	1,093,243	–	1,093,243	1,054,515	–	1,054,515
Deferred revenue	2,362,895	500,000	2,862,895	2,427,401	–	2,427,401
Conditional grant (PPP loan)	2,000,000	–	2,000,000	3,911,497	–	3,911,497
Agency accounts	150,918	–	150,918	143,220	–	143,220
Total liabilities	8,185,266	526,681	8,711,947	8,938,981	26,682	8,965,663
Net assets	43,834,628	18,473,182	62,307,810	25,940,251	16,363,909	42,304,160
Total liabilities and net assets	\$ 52,019,894	\$ 18,999,863	\$ 71,019,757	\$ 34,879,232	\$ 16,390,591	\$ 51,269,823

See accompanying notes.

The Detroit Zoological Society

Statements of Activities

	Year Ended December 31, 2021			Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support						
Admissions, parking, and rentals	\$ 8,271,902	\$ –	\$ 8,271,902	\$ 3,948,553	\$ –	\$ 3,948,553
Membership dues	4,181,781	–	4,181,781	3,124,229	–	3,124,229
Special events	4,239,227	2,000	4,241,227	1,478,472	–	1,478,472
Concessions	1,732,335	–	1,732,335	774,113	–	774,113
Rides and attractions	911,593	–	911,593	14,762	–	14,762
Investment income	3,181,398	1,108,034	4,289,432	3,706,548	1,613,539	5,320,087
Other	132,446	–	132,446	217,822	296,185	514,007
Government and public support:						
County authority service agreements	13,786,317	–	13,786,317	13,259,906	–	13,259,906
City of Detroit	570,000	–	570,000	570,000	–	570,000
Other support:						
Contributions and annual gifts	4,634,391	1,821,021	6,455,412	3,775,447	1,353,620	5,129,067
Donated services and materials	853,926	91,067	944,993	839,093	–	839,093
Net assets released from restrictions:						
Satisfaction of program restrictions	912,849	(912,849)	–	372,470	(372,470)	–
Donor release of restrictions	–	–	–	1,000,000	(1,000,000)	–
Total revenue	43,408,165	2,109,273	45,517,438	33,081,415	1,890,874	34,972,289
Expenses						
Program:						
Animal care	8,277,599	–	8,277,599	7,675,681	–	7,675,681
Education	1,595,252	–	1,595,252	1,341,289	–	1,341,289
Donated services	862,926	–	862,926	839,093	–	839,093
Guest services	1,876,415	–	1,876,415	1,114,274	–	1,114,274
Membership services	507,621	–	507,621	531,723	–	531,723
Rides and attractions	1,146,748	–	1,146,748	556,680	–	556,680
Marketing and public relations	703,138	–	703,138	634,552	–	634,552
Maintenance and park operations	8,704,476	–	8,704,476	7,165,129	–	7,165,129
Other program services	4,704,912	–	4,704,912	3,434,416	–	3,434,416
Support services:						
Management and administrative	2,538,946	–	2,538,946	2,114,292	–	2,114,292
Fundraising	1,620,182	–	1,620,182	1,300,416	–	1,300,416
Total expenses	32,538,215	–	32,538,215	26,707,545	–	26,707,545
Operating income before other gains	10,869,950	2,109,273	12,979,223	6,373,870	1,890,874	8,264,744
Other gains						
Shuttered Venue Operators Grant	7,715,338	–	7,715,338	–	–	–
Payment Protection Program loan forgiveness	3,911,497	–	3,911,497	–	–	–
Excess of revenue over expenses	22,496,785	2,109,273	24,606,058	6,373,870	1,890,874	8,264,744
Other changes in net assets						
Capital acquisitions	(4,602,408)	–	(4,602,408)	(2,688,238)	–	(2,688,238)
Increase in net assets	17,894,377	2,109,273	20,003,650	3,685,632	1,890,874	5,576,506
Net assets, beginning of year	25,940,251	16,363,909	42,304,160	22,254,619	14,473,035	36,727,654
Net assets, end of year	\$ 43,834,628	\$ 18,473,182	\$ 62,307,810	\$ 25,940,251	\$ 16,363,909	\$ 42,304,160

See accompanying notes.

The Detroit Zoological Society

Statements of Cash Flows

	Year Ended December 31	
	2021	2020
Operating activities		
Increase in net assets	\$ 20,003,650	\$ 5,576,506
Depreciation	286,644	275,255
Change in unrealized gains	(1,797,389)	(3,904,486)
Changes in operating assets and liabilities:		
Receivable from county authorities	(217,497)	(95,000)
Pledges receivable	(915,982)	691,477
Other receivables	179,922	(288,853)
Prepaid expenses	(346,546)	317,231
Accounts payable and other	1,175,861	(1,003,614)
Accrued payroll and related liabilities	38,728	(701,744)
Deferred revenue	435,494	(532,900)
Conditional grant (PPP loan)	(1,911,497)	3,911,497
Agency accounts	7,698	41,103
Net cash provided by operating activities	<u>16,939,086</u>	<u>4,286,472</u>
Investing activities		
Purchase of investments	(10,606,808)	(10,250,890)
Proceeds from sale of investments	2,791,699	9,159,053
Purchase of depreciable assets	(667,587)	(154,101)
Net cash used in investing activities	<u>(8,482,696)</u>	<u>(1,245,938)</u>
Net increase in cash and cash equivalents	8,456,390	3,040,534
Cash and cash equivalents at beginning of year	10,199,596	7,159,062
Cash and cash equivalents at end of year	<u>\$ 18,655,986</u>	<u>\$ 10,199,596</u>

See accompanying notes.

The Detroit Zoological Society

Notes to Financial Statements

December 31, 2021

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 38,794 and 30,394 active memberships of the Society at December 31, 2021 and 2020, 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, 2021 and 2020, for reimbursement of security and insurance costs, which were recorded in net assets without donor restrictions.

COVID-19 Pandemic

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 on March 17, 2020. The Society operated with only essential functions, including animal care, facility maintenance, and safety and security, on-site at its two campuses, the Detroit Zoo and the Belle Isle Nature Center. During the shutdown and limited operations period, a limited number of education, communications, development, marketing, events, IT, guest relations, and membership staff worked remotely on reduced schedules to produce virtual education programming, conduct fundraising, maintain communications with the Society members and the community, and plan for reopening.

The Detroit Zoological Society

Notes to Financial Statements (continued)

1. Organization (continued)

The closure and limited operations required a reduction in workforce, as well as a reduction in wages and hours for remaining staff. All discretionary spending was halted, with only expenses needed for essential operations being approved. To help cover essential costs during the closure, the Society received fundraising support from board members and received approval from a donor to utilize a \$1 million restricted gift for unrestricted operating support. As a result of the temporary shutdown, the Society extended membership contract terms for active members as of April 1, 2020, from 12 months to 15 months.

During the closure, the Society prepared for the reopening of the Detroit Zoo by implementing a number of guest, staff, and animal safety protocols. These protocols included establishing strict daily attendance limits to allow social distancing, requiring timed tickets to manage how many people were in the Zoo at one time, requiring masks unless medically prevented from doing so, and changing the way guests entered and experienced the Zoo to ensure social distancing and reduce the chance of people congregating. Most indoor buildings were closed to guests, and more than 100 hand sanitizing stations were placed throughout the Zoo. The Belle Isle Nature Center has remained closed throughout 2020 and 2021.

On June 8, 2020, the Detroit Zoo reopened with the above safety protocols in place. Even with reduced staffing and spending, the Society continued to work toward its mission and had a positive impact on the community. The education team moved its programming to the internet, creating unique and engaging daily digital content, and the organization focused on reducing utility usage to help save money and reduce the organization's carbon footprint. In 2020, the Society experienced a 33% reduction in budgeted revenues as a result of the temporary shutdown and reduced capacity upon reopening. This was partially mitigated by the cost controls noted above, resulting in a 34% reduction in budgeted expenses. As of December 31, 2021, budgeted revenues were up 38%, driven by an increase in attendance and strong event performance. There was a corresponding increase of 9% in budgeted expenses as the park operations returned to normal.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Subsequent Events

The Society evaluates subsequent events, which are events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued, for recognition in the financial statements as of the statement of financial position date. For the year ended December 31, 2021, the Society evaluated the impact of subsequent events through June 7, 2022, 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 or statements of activities, or in the accompanying notes to the financial statements, except for the matters discussed in Note 16.

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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 majority 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, 2021, \$17,314,345 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, 2021 and 2020, no allowance for doubtful accounts was recognized.

As of December 31, 2021, the Society has a conditional pledge of \$3,500,000, of which \$500,000 related to this conditional pledge had been received at December 31, 2021, and is included in deferred revenue as of December 31, 2021. The conditional pledge is predicated on the Society initiating construction on one of the planned capital projects. As of December 31, 2021, the Society had not met the conditions of the pledge and the pledge has not been recognized in revenue on the statement of activities. Management expects conditions of the pledge will be fully met in future periods.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

The Society maintains investments consisting of diversified mutual funds and equity securities 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.

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 \$2,350,448 and \$2,185,927 at December 31, 2021 and 2020, respectively. In 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, 2021 and 2020, was \$242,314 and \$242,313, 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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Donated Services

The Society is the recipient of certain donated services, including the time of board members of the Society and more than 700 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

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 statements of activities as net assets released from restrictions.

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

Contributions from the county authority service agreements are recognized over the fiscal year of the counties as the performance-related barrier (i.e., maintain and operate the Zoo throughout the year) is overcome and are 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.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Membership dues are recognized over the term of the contract. The term of the contract is generally 12 months, with the exception of the one-time extension to 15 months due to the COVID-19 pandemic as discussed in Note 1.

Deferred Revenue

The Society records revenue on an accrual basis. Revenue from memberships, gift cards, event rentals, sponsorship, and other transactions where performance obligations have not been satisfied are recorded in deferred revenue and classified as revenue when the performance obligations have been satisfied. The following is a summary of deferred revenue at December 31:

	<u>2021</u>	<u>2020</u>
Membership dues	\$ 1,880,628	\$ 1,930,901
Conditional pledge	500,000	–
Gift cards	172,293	240,406
Rentals	164,228	181,590
Sponsorship	84,695	15,195
Other	61,051	59,309
Total	<u>\$ 2,862,895</u>	<u>\$ 2,427,401</u>

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, 2021 or 2020.

The Detroit Zoological Society

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Expense

Advertising is expensed when incurred. For the years ended December 31, 2021 and 2020, advertising costs of \$398,793 and \$377,047, respectively, were expensed, of which \$144,230 and \$262,856, respectively, were donated services.

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.

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 fiscal year of the counties as the performance related barrier is overcome. During the years ended December 31, 2021 and 2020, the Society has recognized \$13,786,317 and \$13,259,906, respectively, of contributions under the agreements. As of December 31, 2021 and 2020, the Society had receivables from county authorities of \$2,702,497 and \$2,485,000, respectively. 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 \$25,000 and \$155,000 at December 31, 2021 and 2020, respectively, related to the receivable from the counties.

The Detroit Zoological Society

Notes to Financial Statements (continued)

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

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2021	2020
Animal care	\$ 976,963	\$ 722,074
Capital projects	1,927,552	2,625,961
Programs:		
Education	1,902,994	1,471,901
Other	2,196,052	1,796,365
Total	<u>\$ 7,003,561</u>	<u>\$ 6,616,301</u>

Permanently restricted net assets are restricted for the following purposes:

	December 31	
	2021	2020
Education program	\$ 4,202,904	\$ 3,905,455
Maintenance and acquisition of art collection	1,786,657	1,652,066
General operations	1,297,065	1,006,042
Animal care	1,575,607	755,278
Discretionary	554,821	513,002
Child admission	843,234	793,790
Animal conservation	1,209,333	1,121,975
Total	<u>\$ 11,469,621</u>	<u>\$ 9,747,608</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

5. Board-Designated Net Assets

At December 31, 2021 and 2020, investments of \$20,946,676 and \$18,216,675, 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, 2021 and 2020, net assets of the Society have been designated by the Board of Directors for capital purposes in the amount of \$1,443,375 and \$1,429,974, respectively, and operating purposes in the amount of \$6,982,593 and \$6,930,049, respectively, and are included in net assets without donor restrictions on the accompanying statements of financial position.

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	
	2021	2020
Animal care	\$ 27,740	\$ 44,726
Capital projects	707,080	168,184
Programs:		
General operations	13,014	56,887
Education	162,880	102,673
Art acquisition and maintenance	2,135	—
	<u>\$ 912,849</u>	<u>\$ 372,470</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

7. Investments

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

	December 31	
	2021	2020
Cash equivalents	\$ 318,614	\$ 1,117,575
Equity securities	1,151,580	–
Publicly traded mutual funds:		
Fixed income	11,746,175	10,203,463
Traditional equities	31,127,373	23,410,206
	\$ 44,343,742	\$ 34,731,244

Investment income included in revenue is summarized as follows:

	Year Ended December 31	
	2021	2020
Interest, dividends, and fees	\$ 2,078,811	\$ 1,245,848
Net realized gains	413,232	169,753
Net unrealized gains	1,797,389	3,904,486
Net investment income	\$ 4,289,432	\$ 5,320,087

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 restrictions.

The Detroit Zoological Society

Notes to Financial Statements (continued)

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	
	2021	2020
Less than one year	\$ 2,759,789	\$ 1,877,901
One to five years	141,636	107,542
	<u>\$ 2,901,425</u>	<u>\$ 1,985,443</u>

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

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 a 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, 2021 and 2020, the assets listed in the fair value hierarchy tables below are all publicly traded equity securities and 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:

	2021			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 18,655,986	\$ —	\$ —	\$ 18,655,986
Investments				
Cash equivalents	318,614	—	—	318,614
Equity securities	1,151,580	—	—	1,151,580
Publicly traded mutual funds:				
Fixed income	11,746,175	—	—	11,746,175
Traditional equities	31,127,373	—	—	31,127,373
	<u>\$ 62,999,728</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 62,999,728</u>

	2020			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 10,199,596	\$ —	\$ —	\$ 10,199,596
Investments				
Cash equivalents	1,117,575	—	—	1,117,575
Publicly traded mutual funds:				
Fixed income	10,203,463	—	—	10,203,463
Traditional equities	23,410,206	—	—	23,410,206
	<u>\$ 44,930,840</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 44,930,840</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 17 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 Society’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, 2021, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	\$ –	\$ 14,365,309	\$ 14,365,309
Board-designated funds	20,688,986	–	20,688,986
Ending net assets	<u>\$ 20,688,986</u>	<u>\$ 14,365,309</u>	<u>\$ 35,054,295</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2021, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning net assets	\$ 18,216,674	\$ 12,027,301	\$ 30,243,975
Investment income (loss):			
Interest, dividends, and fees	951,261	506,676	1,457,937
Realized and unrealized income	1,121,547	581,358	1,702,905
Endowment income for use	(20,000)	20,000	–
Total investment income	<u>2,052,808</u>	<u>1,108,034</u>	<u>3,160,842</u>
Contributions	419,504	1,333,679	1,753,183
Funds released from restrictions	–	(103,705)	(103,705)
Ending net assets	<u>\$ 20,688,986</u>	<u>\$ 14,365,309</u>	<u>\$ 35,054,295</u>

At December 31, 2020, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	\$ –	\$ 12,027,301	\$ 12,027,301
Board-designated funds	18,216,674	–	18,216,674
Ending net assets	<u>\$ 18,216,674</u>	<u>\$ 12,027,301</u>	<u>\$ 30,243,975</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

11. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2020, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning net assets	\$ 15,277,375	\$ 10,219,673	\$ 25,497,048
Investment income (loss):			
Interest, dividends, and fees	644,495	331,943	976,438
Realized and unrealized income	1,982,025	1,261,596	3,243,621
Endowment income for use	(20,000)	20,000	–
Total investment income	2,606,520	1,613,539	4,220,059
Contributions	332,779	338,317	671,096
Funds released from restrictions	–	(144,228)	(144,228)
Ending net assets	\$ 18,216,674	\$ 12,027,301	\$ 30,243,975

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 \$19,500 in calendar year 2021. 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 \$481,305 and \$425,835 for the years ended December 31, 2021 and 2020, respectively. The Society's profit-sharing contribution to the Plan was \$0 for the years ended December 31, 2021 and 2020.

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, and has been extended until December 31, 2022. 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 \$3,000,000 in capital improvements to the Zoo's facilities per the initial contract and extensions, of which \$3,000,000 have been completed as of December 31, 2021.

14. Functional Expenses

The Society's expenses by their natural and functional classification for the year ended December 31, 2021, 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	\$ 6,468,270	\$ 1,776,604	\$ 2,704,326	\$ 10,949,200	\$ 2,791,817	\$ 3,783,759	\$ 1,094,008	\$ 7,669,584	\$ 18,618,784
Grants to other organizations	453,349	—	—	453,349	—	—	—	—	453,349
Supplies and travel	943,384	204,352	527,041	1,674,777	462,897	804,013	171,915	1,438,825	3,113,602
Services and professional fees	855,211	312,361	1,166,576	2,334,148	2,277,999	2,367,482	352,858	4,998,339	7,332,487
Office and occupancy	6,603	223	10,074	16,900	622,098	2,088,672	1,402	2,712,172	2,729,072
Depreciation and interest	—	—	—	—	4,277	286,644	—	290,921	290,921
Total expenses	<u>\$ 8,726,817</u>	<u>\$ 2,293,540</u>	<u>\$ 4,408,017</u>	<u>\$ 15,428,374</u>	<u>\$ 6,159,088</u>	<u>\$ 9,330,570</u>	<u>\$ 1,620,183</u>	<u>\$ 17,109,841</u>	<u>\$ 32,538,215</u>

The Society's expenses by their natural and functional classification for the year ended December 31, 2020, 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	\$ 6,110,178	\$ 1,497,030	\$ 2,067,501	\$ 9,674,709	\$ 2,030,512	\$ 3,298,169	\$ 1,029,910	\$ 6,358,591	\$ 16,033,300
Grants to other organizations	436,946	—	—	436,946	—	—	—	—	436,946
Supplies and travel	985,672	112,282	252,166	1,350,120	374,738	607,572	55,328	1,037,638	2,387,758
Services and professional fees	562,236	379,939	592,411	1,534,586	1,783,698	1,810,792	214,359	3,808,849	5,343,435
Office and occupancy	8,452	221	13,442	22,115	455,360	1,744,403	821	2,200,584	2,222,699
Depreciation and interest	—	—	—	—	7,683	275,724	—	283,407	283,407
Total expenses	<u>\$ 8,103,484</u>	<u>\$ 1,989,472</u>	<u>\$ 2,925,520</u>	<u>\$ 13,018,476</u>	<u>\$ 4,651,991</u>	<u>\$ 7,736,660</u>	<u>\$ 1,300,418</u>	<u>\$ 13,689,069</u>	<u>\$ 26,707,545</u>

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 statement of financial position date for general expenditures are as follows:

	December 31	
	2021	2020
Cash and cash equivalents	\$ 18,655,986	\$ 10,199,596
Investments	33,611,469	25,364,910
Less amounts due to donor restricted	(5,685,979)	(5,064,382)
County receivable	2,702,497	2,485,000
Pledges receivable	373,292	72,648
Other receivables	523,543	709,863
	<u>\$ 50,180,808</u>	<u>\$ 33,767,635</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. Nonrecurring Transactions

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 includes a Paycheck Protection Program (the PPP), which was a program intended to provide small businesses with eight weeks of cash-flow assistance through 100% federally guaranteed loans. The Society received PPP loans in the amount of \$2,000,000 and \$3,911,497 during the years ended December 31, 2021 and 2020, respectively. Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and salary maintenance requirements are met. The Society may use the funds on qualifying expenses over a covered period of at least 8 weeks and up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the Small Business Administration will be repaid over a period of two years from the date of issuance at a 0.98% interest rate with monthly payments of principal and interest beginning ten months after the conclusion of the covered period.

The Detroit Zoological Society

Notes to Financial Statements (continued)

16. Nonrecurring Transactions (continued)

The loans have been accounted for as conditional grants from the United States (U.S.) government and are recognized as income when all conditions, including the approval of the forgiveness application, are met. At December 31, 2021, the conditions for forgiveness were met related to the PPP loan received in 2020. Accordingly, the Society recognized income of \$3,911,497 during the year ended December 31, 2021, related to this loan and included the amount in other gains on the statement of activities for the year ended December 31, 2021.

As of December 31, 2021, the conditions for forgiveness on the 2021 loan have not been met and therefore the outstanding balance on the PPP loan of \$2,000,000 is reflected as a conditional grant on the statement of financial position. In March 2022, subsequent to the financial statement date, the Society received forgiveness of the 2021 PPP loan.

In response to the COVID-19 pandemic, the Shuttered Venue Operators Grant (SVOG) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The SVOG provided emergency assistance for eligible businesses affected by COVID-19. The Society received a SVOG in July 2021 for \$7,715,368, which is included in other gains on the statement of activities for the year ended December 31, 2021, as the grant is peripheral to the ongoing activities of the Society. The payment received for this grant is considered a conditional contribution. The Society recognized the full amount of the grant in 2021 as all eligible expenses had been incurred as of December 31, 2021.

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