

FINANCIAL STATEMENTS

The Detroit Zoological Society
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



The Detroit Zoological Society

Financial Statements

Years Ended December 31, 2020 and 2019

Contents

Report of Independent Auditors 1

Financial Statements

Statements of Financial Position..... 3

Statements of Activities..... 4

Statements of Cash Flows 5

Notes to Financial Statements 6



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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, 2020 and 2019, 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 of America. 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 3, 2021

The Detroit Zoological Society

Statements of Financial Position

	December 31, 2020			December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ 10,199,596	\$ –	\$ 10,199,596	\$ 7,159,062	\$ –	\$ 7,159,062
Investments	25,364,910	9,366,334	34,731,244	21,654,926	8,079,995	29,734,921
Receivable from county authorities	2,485,000	–	2,485,000	2,390,000	–	2,390,000
Pledges receivable	72,648	1,912,795	1,985,443	104,323	2,572,597	2,676,920
Other receivables	709,863	37,280	747,143	372,147	86,143	458,290
Due (from) to other funds	(5,064,382)	5,064,382	–	(3,708,900)	3,708,900	–
Prepaid expenses	442,912	9,800	452,712	744,543	25,400	769,943
Building and equipment, net	668,685	–	668,685	789,839	–	789,839
Total assets	\$ 34,879,232	\$ 16,390,591	\$ 51,269,823	\$ 29,505,940	\$ 14,473,035	\$ 43,978,975
Liabilities and net assets						
Accounts payable and other	\$ 1,402,348	\$ 26,682	\$ 1,429,030	\$ 2,432,644	\$ –	\$ 2,432,644
Accrued payroll and related liabilities	1,054,515	–	1,054,515	1,756,259	–	1,756,259
Deferred revenue	2,427,401	–	2,427,401	2,960,301	–	2,960,301
Conditional grant (PPP loan)	3,911,497	–	3,911,497	–	–	–
Agency accounts	143,220	–	143,220	102,117	–	102,117
Total liabilities	8,938,981	26,682	8,965,663	7,251,321	–	7,251,321
Net assets	25,940,251	16,363,909	42,304,160	22,254,619	14,473,035	36,727,654
Total liabilities and net assets	\$ 34,879,232	\$ 16,390,591	\$ 51,269,823	\$ 29,505,940	\$ 14,473,035	\$ 43,978,975

See accompanying notes.

The Detroit Zoological Society

Statements of Activities

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Revenue, gains, and other support						
Admissions, parking, and rentals	\$ 3,948,553	\$ –	\$ 3,948,553	\$ 8,703,344	\$ –	\$ 8,703,344
Membership dues	3,124,229	–	3,124,229	4,969,991	–	4,969,991
Special events	1,478,472	–	1,478,472	4,514,472	3,181	4,517,653
Concessions	774,113	–	774,113	1,984,684	–	1,984,684
Rides and attractions	14,762	–	14,762	1,414,635	–	1,414,635
Investment income	3,706,548	1,613,539	5,320,087	2,751,932	1,467,495	4,219,427
Other	217,822	296,185	514,007	132,801	–	132,801
Government and public support:						
County authority service agreements	13,259,906	–	13,259,906	13,256,802	–	13,256,802
City of Detroit	570,000	–	570,000	570,000	–	570,000
Other support:						
Contributions and annual gifts	3,775,447	1,353,620	5,129,067	4,308,075	3,501,945	7,810,020
Donated services and materials	839,093	–	839,093	2,791,547	–	2,791,547
Net assets released from restrictions:						
Satisfaction of program restrictions	372,470	(372,470)	–	2,534,717	(2,534,717)	–
Donor release of restrictions	1,000,000	(1,000,000)	–	–	–	–
Total revenue	33,081,415	1,890,874	34,972,289	47,933,000	2,437,904	50,370,904
Expenses						
Program:						
Animal care	7,675,681	–	7,675,681	8,736,090	–	8,736,090
Education	1,341,289	–	1,341,289	2,278,036	–	2,278,036
Donated services	839,093	–	839,093	2,804,667	–	2,804,667
Guest services	1,114,274	–	1,114,274	2,684,989	–	2,684,989
Membership services	531,723	–	531,723	1,058,232	–	1,058,232
Rides and attractions	556,680	–	556,680	1,497,580	–	1,497,580
Marketing and public relations	634,552	–	634,552	1,794,484	–	1,794,484
Maintenance and park operations	7,165,129	–	7,165,129	8,622,622	–	8,622,622
Other program services	3,434,416	–	3,434,416	4,975,428	–	4,975,428
Support services:						
Management and administrative	2,114,292	–	2,114,292	2,666,580	–	2,666,580
Fundraising	1,300,416	–	1,300,416	1,937,111	–	1,937,111
Total expenses	26,707,545	–	26,707,545	39,055,819	–	39,055,819
Excess of revenue over expenses	6,373,870	1,890,874	8,264,744	8,877,181	2,437,904	11,315,085
Other changes in net assets						
Capital acquisitions	(2,688,238)	–	(2,688,238)	(6,245,776)	–	(6,245,776)
Increase in net assets	3,685,632	1,890,874	5,576,506	2,631,405	2,437,904	5,069,309
Net assets, beginning of year	22,254,619	14,473,035	36,727,654	21,947,752	12,035,131	33,982,883
Cumulative effect adjustment related to revenue recognition	–	–	–	(2,324,538)	–	(2,324,538)
Net assets as adjusted, beginning of year	22,254,619	14,473,035	36,727,654	19,623,214	12,035,131	31,658,345
Net assets, end of year	\$ 25,940,251	\$ 16,363,909	\$ 42,304,160	\$ 22,254,619	\$ 14,473,035	\$ 36,727,654

See accompanying notes.

The Detroit Zoological Society

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Increase in net assets	\$ 5,576,506	\$ 5,069,309
Depreciation	275,255	250,284
Change in unrealized (gains)	(3,904,486)	(3,184,474)
Changes in operating assets and liabilities:		
Receivable from county authorities	(95,000)	7,518,000
Pledges receivable	691,477	(1,715,687)
Other receivables	(288,853)	(51,270)
Prepaid expenses	317,231	(288,841)
Accounts payable and other	(1,003,614)	457,396
Accrued payroll and related liabilities	(701,744)	142,465
Deferred revenue	(532,900)	(7,501,897)
Conditional grant (PPP loan)	3,911,497	-
Agency accounts	41,103	(63,992)
Net cash provided by operating activities	<u>4,286,472</u>	<u>631,293</u>
Investing activities		
Purchase of investments	(10,250,890)	(14,898,288)
Proceeds from sale of investments	9,159,053	11,928,060
Purchase of depreciable assets	(154,101)	(453,158)
Net cash used in investing activities	<u>(1,245,938)</u>	<u>(3,423,386)</u>
Net increase (decrease) in cash and cash equivalents	3,040,534	(2,792,093)
Cash and cash equivalents at beginning of year	7,159,062	9,951,155
Cash and cash equivalents at end of year	<u>\$ 10,199,596</u>	<u>\$ 7,159,062</u>

See accompanying notes.

The Detroit Zoological Society

Notes to Financial Statements

December 31, 2020

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 30,394 and 48,480 active memberships of the Society at December 31, 2020 and 2019, 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, 2020 and 2019 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 DZS 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 DZS 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 towards 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. As a result of the temporary shutdown and reduced capacity upon reopening, the Society experienced a 33% reduction in budgeted revenues. This was partially mitigated by the cost controls noted above, resulting in a 34% reduction in budgeted expenses.

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, 2020, the Society evaluated the impact of subsequent events through June 3, 2021, 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 17.

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, 2020, \$9,868,185 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, 2020 and 2019, no allowance for doubtful accounts was recognized.

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 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 \$2,185,927 and \$2,040,932 at December 31, 2020 and 2019, 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, 2020 and 2019 was \$242,313 and \$235,361, 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 600 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 is 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 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.

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>2020</u>	<u>2019</u>
Membership dues	\$ 1,930,901	\$ 2,317,383
Gift cards	240,406	345,905
Rentals	181,590	243,491
Sponsorship	15,195	45,000
Other	59,309	8,522
Total	<u>\$ 2,427,401</u>	<u>\$ 2,960,301</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, 2020 or 2019.

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, 2020 and 2019, advertising costs of \$377,047 and \$1,524,548, respectively, were expensed, of which \$262,856 and \$713,059, 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, 2020 and 2019, the Society has recognized \$13,259,906 and \$13,256,802, respectively, of contributions under the agreements. As of December 31, 2020 and 2019, the Society had receivables from county authorities of \$2,485,000 and \$2,390,000, 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 \$155,000 at December 31, 2020 and 2019 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	
	2020	2019
Animal care	\$ 722,074	\$ 604,120
Capital projects	2,625,961	3,369,271
Programs:		
Education	1,471,901	1,170,400
Other	1,796,365	869,992
Total	<u>\$ 6,616,301</u>	<u>\$ 6,013,783</u>

Permanently restricted net assets are restricted for the following purposes:

	December 31	
	2020	2019
Education program	\$ 3,905,455	\$ 3,395,878
Maintenance and acquisition of art collection	1,652,066	1,424,301
General operations	1,006,042	867,270
Animal care	755,278	651,088
Discretionary	513,002	442,238
Child admission	793,790	705,845
Animal conservation	1,121,975	972,632
Total	<u>\$ 9,747,608</u>	<u>\$ 8,459,252</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

5. Board-Designated Net Assets

At December 31, 2020 and 2019, investments of \$18,216,675 and \$15,277,376, 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, 2020 and 2019, net assets of the Society have been designated by the Board of Directors for capital purposes in the amount of \$1,429,974 and \$1,691,771, respectively, and operating purposes in the amount of \$6,930,049 and \$6,019,841, 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	
	2020	2019
Animal care	\$ 44,726	\$ 78,485
Capital projects	168,184	2,151,905
Programs:		
General operations	56,887	57,613
Education	102,673	140,192
Art acquisition and maintenance	—	106,522
	<u>\$ 372,470</u>	<u>\$ 2,534,717</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	
	2020	2019
Cash equivalents	\$ 1,117,575	\$ 1,167,904
Publicly traded mutual funds:		
Fixed income	10,203,463	7,806,864
Traditional equities	23,410,206	20,760,153
	\$ 34,731,244	\$ 29,734,921

Investment income included in revenue is summarized as follows:

	Year Ended December 31	
	2020	2019
Interest, dividends, and fees	\$ 1,245,848	\$ 990,211
Net realized gains	169,753	44,742
Net unrealized gains	3,904,486	3,184,474
Net investment income	\$ 5,320,087	\$ 4,219,427

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	
	2020	2019
Less than one year	\$ 1,877,901	\$ 2,513,992
One to five years	107,542	162,928
	<u>\$ 1,985,443</u>	<u>\$ 2,676,920</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 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, 2020 and 2019, 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:

	2020			
	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	\$ 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
	\$ 44,930,840	\$ —	\$ —	\$ 44,930,840

	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

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 15 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, 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	<u>2,606,520</u>	<u>1,613,539</u>	<u>4,220,059</u>
Contributions	332,779	338,317	671,096
Funds released from restrictions	–	(144,228)	(144,228)
Ending net assets	<u>\$ 18,216,674</u>	<u>\$ 12,027,301</u>	<u>\$ 30,243,975</u>

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	\$ 15,277,375	\$ 10,219,673	\$ 25,497,048

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 2020. 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 \$425,835 and \$555,221 for the years ended December 31, 2020 and 2019, respectively. The Society's profit-sharing contribution to the Plan was \$0 for the years ended December 31, 2020 and 2019.

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 \$2,600,000 have been completed as of December 31, 2020.

14. Functional Expenses

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'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	<u>\$ 9,399,974</u>	<u>\$ 3,112,880</u>	<u>\$ 6,997,027</u>	<u>\$ 19,509,881</u>	<u>\$ 5,504,393</u>	<u>\$ 11,952,926</u>	<u>\$ 2,088,619</u>	<u>\$ 19,545,938</u>	<u>\$ 39,055,819</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	
	2020	2019
Cash and cash equivalents	\$ 10,199,596	\$ 7,159,062
Investments	25,364,910	21,654,926
Less: amounts due to donor restricted	(5,064,382)	(3,708,900)
County receivable	2,485,000	2,390,000
Pledges receivable	72,648	104,323
Other receivables	709,863	372,147
	<u>\$ 33,767,635</u>	<u>\$ 27,971,558</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. Conditional Grant

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. During the year ended December 31, 2020, the Society received a PPP loan in the amount of \$3,911,497. 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 (SBA) 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 maturity date on the PPP loan is April 2022. The loan has been accounted for as a conditional grant from the United States (U.S.) Government and will be recognized as income when all conditions, including the approval of the application forgiveness, are met. At December 31, 2020, the conditions for forgiveness have not been met and therefore the outstanding balance on the PPP loan of \$3,911,497 is classified as a conditional grant on the statement of financial position.

The Detroit Zoological Society

Notes to Financial Statements (continued)

17. Subsequent Events

As a result of the continued impact of the COVID-19 pandemic, the Consolidated Appropriations Act of 2021 was signed into law on December 20, 2020, which provided \$284 million to the U.S. SBA for additional PPP loans. On March 21, 2021, the Society was approved for an additional PPP loan in the amount of \$2,000,000. While management expects that the loan will be forgiven, no assurances can be provided that the Society will qualify for such forgiveness. The loan will be accounted for as a conditional grant from the U.S. Government.

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