

FINANCIAL STATEMENTS

The Detroit Zoological Society  
Years Ended December 31, 2016 and 2015  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

The Detroit Zoological Society

Financial Statements

Years Ended December 31, 2016 and 2015

**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 (the Society), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Detroit Zoological Society at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

May 8, 2017

# The Detroit Zoological Society

## Statements of Financial Position

	December 31, 2016					December 31, 2015				
	Unrestricted	Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Designated	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>										
Cash and cash equivalents	\$ 3,053,526	\$ -	\$ -	\$ -	\$ 3,053,526	\$ 10,958,085	\$ -	\$ 144,809	\$ -	\$ 11,102,894
Investments	-	15,373,381	-	6,675,901	22,049,282	-	13,294,847	-	6,224,698	19,519,545
Receivable from county authorities	8,726,800	-	-	-	8,726,800	8,496,000	-	-	-	8,496,000
Pledges receivable	49,458	-	3,098,004	123,410	3,270,872	55,629	-	1,495,018	133,314	1,683,961
Other receivables	272,049	50,000	-	-	322,049	312,055	-	201,050	-	513,105
Due to (from) other funds	(3,449,330)	1,985,612	1,462,268	1,450	-	(5,823,237)	4,662,203	1,022,940	138,094	-
Prepaid expenses	548,412	108,668	30,000	-	687,080	716,137	-	-	-	716,137
Building and equipment, net	540,491	-	-	-	540,491	525,685	-	-	-	525,685
<b>Total assets</b>	<b>\$ 9,741,406</b>	<b>\$ 17,517,661</b>	<b>\$ 4,590,272</b>	<b>\$ 6,800,761</b>	<b>\$ 38,650,100</b>	<b>\$ 15,240,354</b>	<b>\$ 17,957,050</b>	<b>\$ 2,863,817</b>	<b>\$ 6,496,106</b>	<b>\$ 42,557,327</b>
<b>Liabilities</b>										
Accounts payable and other	\$ 3,278,708	\$ -	\$ -	\$ -	\$ 3,278,708	\$ 5,700,140	\$ -	\$ -	\$ -	\$ 5,700,140
Accrued payroll and related liabilities	1,325,386	-	-	-	1,325,386	1,140,949	-	-	-	1,140,949
Deferred revenue	7,197,361	22,500	-	-	7,219,861	7,036,328	-	-	-	7,036,328
Line of credit	-	-	-	-	-	750,000	-	-	-	750,000
Agency accounts	54,403	-	-	-	54,403	61,129	-	-	-	61,129
<b>Total liabilities</b>	<b>11,855,858</b>	<b>22,500</b>	<b>-</b>	<b>-</b>	<b>11,878,358</b>	<b>14,688,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,688,546</b>
Net assets (deficit)	(2,114,452)	17,495,161	4,590,272	6,800,761	26,771,742	551,808	17,957,050	2,863,817	6,496,106	27,868,781
<b>Total liabilities and net assets</b>	<b>\$ 9,741,406</b>	<b>\$ 17,517,661</b>	<b>\$ 4,590,272</b>	<b>\$ 6,800,761</b>	<b>\$ 38,650,100</b>	<b>\$ 15,240,354</b>	<b>\$ 17,957,050</b>	<b>\$ 2,863,817</b>	<b>\$ 6,496,106</b>	<b>\$ 42,557,327</b>

See accompanying notes.

# The Detroit Zoological Society

## Statements of Activities

	Year Ended December 31, 2016					Year Ended December 31, 2015				
	Unrestricted	Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Designated	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>										
Admissions, parking, and rentals	\$ 9,476,874	\$ -	\$ -	\$ -	\$ 9,476,874	\$ 7,980,668	\$ -	\$ -	\$ -	\$ 7,980,668
Membership dues	4,872,684	-	-	-	4,872,684	4,484,968	-	-	-	4,484,968
Special events	3,742,575	-	-	-	3,742,575	3,304,909	-	-	-	3,304,909
Concessions	2,612,329	-	-	-	2,612,329	2,279,348	-	-	-	2,279,348
Rides and attractions	1,465,882	-	-	-	1,465,882	2,348,990	-	-	-	2,348,990
Investment income (loss)	2,939	524,753	280,482	140,083	948,257	9,608	(270,603)	267,151	(431,769)	(425,613)
Other	196,245	-	-	-	196,245	183,152	-	-	-	183,152
Government and public support:										
County authority service agreements	11,768,675	-	-	-	11,768,675	11,566,980	-	-	-	11,566,980
City of Detroit	570,000	-	-	-	570,000	570,000	-	-	-	570,000
Other support:										
Contributions and annual gifts	3,769,417	448,905	4,196,509	24,572	8,439,403	3,782,945	369,791	7,916,934	403,083	12,472,753
Donated services and materials	3,234,797	-	282,904	-	3,517,701	3,081,714	-	-	-	3,081,714
Net assets released from restrictions:										
Satisfaction of program restrictions	3,033,440	-	(3,033,440)	-	-	12,906,729	-	(12,906,729)	-	-
Total revenue	44,745,857	973,658	1,726,455	164,655	47,610,625	52,500,011	99,188	(4,722,644)	(28,686)	47,847,869
<b>Expenses</b>										
Program:										
Animal care	7,322,107	-	-	-	7,322,107	6,775,119	-	-	-	6,775,119
Education	2,711,123	-	-	-	2,711,123	1,932,830	-	-	-	1,932,830
Donated services	3,244,862	-	-	-	3,244,862	3,043,051	-	-	-	3,043,051
Guest services	1,564,457	-	-	-	1,564,457	1,139,249	-	-	-	1,139,249
Membership services	909,435	-	-	-	909,435	911,930	-	-	-	911,930
Rides and attractions	1,344,874	-	-	-	1,344,874	2,102,021	-	-	-	2,102,021
Marketing and public relations	2,607,870	-	-	-	2,607,870	2,560,314	-	-	-	2,560,314
Maintenance and park operations	8,341,134	-	-	-	8,341,134	7,576,183	-	-	-	7,576,183
Other program services	5,357,570	-	-	-	5,357,570	4,584,653	-	-	-	4,584,653
Support services:										
Management and administrative	2,121,643	-	-	-	2,121,643	1,948,743	-	-	-	1,948,743
Fundraising	1,844,197	-	-	-	1,844,197	1,488,954	-	-	-	1,488,954
Total expenses	37,369,272	-	-	-	37,369,272	34,063,047	-	-	-	34,063,047
Excess of revenue over expenses (expenses over revenue)	7,376,585	973,658	1,726,455	164,655	10,241,353	18,436,964	99,188	(4,722,644)	(28,686)	13,784,822
<b>Other changes in net assets</b>										
Transfer from board-designated funds	(7,316,784)	7,316,784	-	-	-	(5,262,920)	5,262,920	-	-	-
Capital acquisitions	(2,586,061)	(8,752,331)	-	-	(11,338,392)	(12,668,479)	(13,106,742)	-	-	(25,775,221)
Transfer to/(from) endowment fund	(140,000)	-	-	140,000	-	(10,000)	-	-	10,000	-
(Decrease) increase in net assets	(2,666,260)	(461,889)	1,726,455	304,655	(1,097,039)	495,565	(7,744,634)	(4,722,644)	(18,686)	(11,990,399)
Net assets, beginning of year	551,808	17,957,050	2,863,817	6,496,106	27,868,781	56,243	25,701,684	7,586,461	6,514,792	39,859,180
Net assets (deficit), end of year	\$ (2,114,452)	\$ 17,495,161	\$ 4,590,272	\$ 6,800,761	\$ 26,771,742	\$ 551,808	\$ 17,957,050	\$ 2,863,817	\$ 6,496,106	\$ 27,868,781

See accompanying notes.

# The Detroit Zoological Society

## Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Decrease in net assets	\$ (1,097,039)	\$ (11,990,399)
Depreciation	244,062	282,752
Change in unrealized loss	515,040	605,405
Change in operating assets and liabilities:		
Receivable from county authorities	(230,800)	(333,000)
Pledges receivable	(1,586,911)	1,220,635
Other receivables	191,056	(30,407)
Prepaid expenses	29,057	353,911
Accounts payable and other	(2,421,432)	2,437,962
Accrued payroll and related liabilities	184,437	(190,002)
Deferred revenue	183,533	80,165
Agency accounts	(6,726)	3,147
Net cash used in operating activities	<u>(3,995,723)</u>	<u>(7,559,831)</u>
<b>Investing activities</b>		
Purchase of investments	(5,197,164)	(42,066,174)
Proceeds from sale of investments	2,152,387	36,898,470
Purchase of depreciable assets	(258,868)	(86,992)
Net cash used in investing activities	<u>(3,303,645)</u>	<u>(5,254,696)</u>
<b>Financing activities</b>		
Repayment of line of credit	(750,000)	-
Net cash used in financing activities	<u>(750,000)</u>	<u>-</u>
Net decrease in cash	(8,049,368)	(12,814,527)
Balance at beginning of year	11,102,894	23,917,421
Balance at end of year	<u>\$ 3,053,526</u>	<u>\$ 11,102,894</u>

*See accompanying notes.*

# The Detroit Zoological Society

## Notes to Financial Statements

December 31, 2016

### **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 60,846 and 55,908 active memberships of the Society at December 31, 2016 and 2015, 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, 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, 2020. 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, 2016 and 2015, for reimbursement of security and insurance costs, which were recorded in the unrestricted fund.

### **2. Summary of Significant Accounting Policies**

#### **Subsequent Events**

The Society evaluates subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued or available to be issued, for recognition in the financial statements as of the balance sheet date. For the year ended December 31, 2016, the Society evaluated the impact of subsequent events through May 8, 2017, representing the date on which the financial statements were available to be issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the statements of financial position or the accompanying notes to the financial statements.

# 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Reclassifications**

Certain 2015 amounts have been reclassified to conform to the 2016 presentation. The reclassifications did not change the decrease in net assets or the net asset amount previously reported.

#### **Cash and Cash Equivalents**

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

The Society concentrates the bulk of its cash at JPMorgan Chase Bank, N.A. for cash management purposes. This typically results in cash investments exceeding Federal Deposit Insurance Corporation (FDIC) limits. As of December 31, 2016, \$2,686,170 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, 2016 and 2015, 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 in the accompanying statements of activities. The fair values for fixed income securities are based on the quoted price as of the valuation date. Mutual funds are valued at their fair value as traded on the date of valuation.

#### **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 \$1,813,667 and \$1,780,558 at December 31, 2016 and 2015, respectively. In fiscal 2009, another endowment was established with the Community Foundation from the Emory Ford Fund Foundation on the Society's behalf. Income received on the endowment investments for the years ended December 31, 2016 and 2015, was \$252,391 and \$252,058, 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 over 1,000 volunteers giving their time performing services throughout the Zoo. The amount of donated services is included in both support and expenses when the value is objectively determinable at estimated fair value. Donated services reflected in the statements of activities consist primarily of volunteer time and promotional and advertising services.

#### **Revenue and Support Recognition**

Annual membership dues, unrestricted contributions 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 temporarily restricted support.

When a donor restriction expires (i.e., when a stipulated time restriction ends or a gift's restricted purpose is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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 permitting the Society to expend part of or all of the income derived there from donated assets, the Society reports these gifts as permanently restricted assets.

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

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

The Detroit Zoological Society

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Deferred Revenue**

The Society records revenue on an accrual basis. Revenue from county authority service agreements, gift cards, event rentals, sponsorship, and other transactions that have not yet been earned is recorded in deferred revenue and classified as revenue when earned. The following is a summary of deferred revenue at December 31, 2016 and 2015:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
County authority service agreement revenue	<b>\$ 6,920,100</b>	\$ 6,822,000
Gift cards	<b>134,278</b>	97,553
Rentals	<b>111,443</b>	114,025
Sponsorship	<b>22,000</b>	2,750
Other	<b>32,040</b>	–
Total	<b><u>\$ 7,219,861</u></b>	<b><u>\$ 7,036,328</u></b>

**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, 2016 or 2015.

**Advertising Expense**

Advertising is expensed when incurred. For the years ended December 31, 2016 and 2015, advertising costs of \$1,339,745 and \$1,379,617, respectively, were expensed, of which \$600,031 and \$653,388, respectively, were donated.

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Works of Art

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

#### New Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments-Overall – Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will change how entities measure many equity investments and present changes in fair value of financial liabilities measured under the fair value option that are attributable to their own creditors. The new guidance also changes certain disclosure requirements and other aspects of current US GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Society is currently evaluating the effect that this standard will have on its financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The Society adopted this accounting standard in 2016 and there was no impact on its financial statements.

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

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This ASU simplifies and improves the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance is effective for the Society for reporting periods beginning after December 15, 2017, with early adoption permitted. The Society is currently evaluating the impact that the new guidance will have on its financial statements.

### **3. County Authority Services Agreements**

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

On August 5, 2008, the voters in the respective counties approved the levies of tax on real and personal property for a period of ten years, to expire in 2017. The millage rate approved was 0.1 mill per \$1,000 of taxable value and was based on property appraisals to provide revenue annually to the Society. The Society has recognized such revenue over the respective county fiscal period and Society fiscal year. During the years ended December 31, 2016 and 2015, the Society has recognized \$11,768,675 and \$11,566,980, respectively, of service contract revenue under the agreements. Due to the uncertainty in tax collections and amounts under appeal, there is at least a reasonable possibility that recorded estimates will change in the near term. The Society has an allowance of \$500,000 and \$600,000 recorded at December 31, 2016 and 2015, respectively.

During 2016, the voters in the respective counties voted to approve the extension of the millage through 2027.

The Detroit Zoological Society

Notes to Financial Statements (continued)

**4. Line of Credit**

The Society had an agreement with Bank of America for a \$750,000 line of credit for the refurbishment of the train. The line of credit was paid off at December 31, 2016. The line of credit was guaranteed by a donor (see Note 10). The donor fulfilled \$250,000 of the commitment and the Society paid the remaining \$500,000 balance for the line of credit. At December 31, 2016 and 2015, there was a \$0 and \$750,000 outstanding on the line of credit, respectively.

**5. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Animal care	\$ 354,204	\$ 234,219
Capital projects	2,680,334	1,504,342
Programs:		
Education	913,082	880,051
Other	642,652	245,205
Total	<u>\$ 4,590,272</u>	<u>\$ 2,863,817</u>

Permanently restricted net assets are restricted for the following purposes:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Education program	\$ 2,640,723	\$ 2,587,745
Maintenance and acquisition of art collection	1,191,080	1,167,239
General operations	723,059	706,232
Animal care	544,950	533,968
Discretionary	370,138	362,497
Child admission	554,156	378,997
Animal conservation	776,655	759,428
Total	<u>\$ 6,800,761</u>	<u>\$ 6,496,106</u>

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### 6. Board-Designated Net Assets

At December 31, 2016 and 2015, \$9,365,264 and \$8,451,106, respectively, of investments were designated by the Board of Directors for endowment and are included in unrestricted board-designated net assets in the accompanying statements of financial position.

At December 31, 2016 and 2015, net assets of the Society have been designated by the Board of Directors for capital purposes in the amount of \$2,129,897 and \$2,505,944, respectively, and operating purposes in the amount of \$6,000,000 and \$7,000,000, respectively, and are included in unrestricted net assets in the accompanying statements of financial position.

### 7. 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. Temporarily restricted net assets were released from restrictions after accomplishment of the following purposes:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Animal care	\$ 28,193	\$ 11,854
Capital projects	2,586,061	12,668,479
Programs:		
General operations	51,525	101,252
Education	342,743	72,911
Art acquisition and maintenance	24,918	52,233
	<u>\$ 3,033,440</u>	<u>\$ 12,906,729</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

**8. Investments**

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Cash equivalents	<b>\$ 6,368,410</b>	\$ 5,256,010
Publicly traded mutual funds:		
Fixed income	<b>4,094,106</b>	3,694,345
Alternatives	<b>1,112,418</b>	1,000,535
Traditional equities	<b>10,474,348</b>	9,568,655
	<b><u>\$ 22,049,282</u></b>	<u>\$ 19,519,545</u>

**9. 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 and 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 unrestricted net assets.

**10. Pledges Receivable**

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

Pledges receivable are expected to be collected as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Less than one year	<b>\$ 2,023,176</b>	\$ 763,510
One to five years	<b>1,247,696</b>	920,451
	<b><u>\$ 3,270,872</u></b>	<u>\$ 1,683,961</u>

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### 10. Pledges Receivable (continued)

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

In 2007, a donor pledged \$750,000 for the refurbishment of the train that runs through the Zoo grounds. The gift was to be paid in full upon the earlier of the following to occur: (a) ten years after the effective date or (b) upon the death of the donor. As described in Note 4, the Society had a \$750,000 line of credit with Bank of America that was guaranteed by the donor. In 2016, the Society paid off the line of credit with Bank of America. The donor paid \$250,000 towards the commitment in 2016. The unpaid pledge balance of \$500,000 is recorded as a receivable as of December 31, 2016, as all of the conditions have been met. Refurbishment of the train was completed in 2008 with the three engines and tenders placed in service. Since May 2008, additional repairs to the train and train track have been ongoing. The donor paid the remaining \$500,000 commitment in January 2017.

### 11. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, 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, 2016 and 2015, the assets listed in the fair value hierarchy tables below are all publicly traded mutual funds. The fair value of the fixed income, alternative, 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)

**11. Fair Value Measurements (continued)**

The following tables present the financial instruments carried at fair value as of December 31, 2016 and 2015, by caption on the statements of financial position:

	December 31, 2016			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Cash and cash equivalents</b>	\$ 3,053,526	\$ –	\$ –	\$ 3,053,526
<b>Investments</b>				
Cash equivalents	6,368,410	–	–	6,368,410
Publicly traded mutual funds:				
Fixed income	4,094,106	–	–	4,094,106
Alternatives	1,112,418	–	–	1,112,418
Traditional equities	10,474,348	–	–	10,474,348
	<u>\$ 25,102,808</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 25,102,808</u>

	December 31, 2015			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Cash and cash equivalents</b>	\$ 11,102,894	\$ –	\$ –	\$ 11,102,894
<b>Investments</b>				
Cash equivalents	5,256,010	–	–	5,256,010
Publicly traded mutual funds:				
Fixed income	3,694,345	–	–	3,694,345
Alternatives	1,000,535	–	–	1,000,535
Traditional equities	9,568,655	–	–	9,568,655
	<u>\$ 30,622,439</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,622,439</u>

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### **11. 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.

### **12. Endowment**

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

The Society follows Michigan's State Management of Institutional Funds Act (SMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Society classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with standards prescribed by SMIFA. In accordance with SMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

# The Detroit Zoological Society

## Notes to Financial Statements (continued)

### 12. 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(s), 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 unrestricted. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 5%. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

At December 31, 2016, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ —	\$ 1,164,766	\$ 6,800,761	\$ 7,965,527
Board-designated funds	9,365,264	—	—	9,365,264
Ending net assets	<u>\$ 9,365,264</u>	<u>\$ 1,164,766</u>	<u>\$ 6,800,761</u>	<u>\$ 17,330,791</u>

The Detroit Zoological Society

Notes to Financial Statements (continued)

**12. Endowment (continued)**

Changes in endowment net assets for the year ended December 31, 2016, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning net assets	\$ 8,451,106	\$ 1,047,360	\$ 6,496,106	\$ 15,994,572
Investment income:				
Interest and dividends	207,272	–	146,907	354,179
Realized and unrealized losses	337,480	–	253,576	591,056
Endowment income for use	(20,000)	280,400	(260,400)	–
Total	524,752	280,400	140,083	945,235
Contributions	389,406	3,662	164,572	557,640
Funds released from restrictions	–	(156,656)	–	(156,656)
Other changes	–	(10,000)	–	(10,000)
Ending net assets	<u>\$ 9,365,264</u>	<u>\$ 1,164,766</u>	<u>\$ 6,800,761</u>	<u>\$ 17,330,791</u>

At December 31, 2015, the endowment net asset composition by type of fund consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ –	\$ 1,047,360	\$ 6,496,106	\$ 7,543,466
Board-designated funds	8,451,106	–	–	8,451,106
Ending net assets	<u>\$ 8,451,106</u>	<u>\$ 1,047,360</u>	<u>\$ 6,496,106</u>	<u>\$ 15,994,572</u>

## The Detroit Zoological Society

### Notes to Financial Statements (continued)

#### 12. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2015, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning net assets	\$ 7,851,917	\$ 799,724	\$ 6,514,792	\$ 15,166,433
Investment income:				
Interest and dividends	192,383	–	144,495	336,878
Realized and unrealized losses	(462,986)	–	(309,264)	(772,250)
Endowment income for use	–	267,000	(267,000)	–
Total	(270,603)	267,000	(431,769)	(435,372)
Contributions	869,792	50,317	413,083	1,333,192
Funds released from restrictions	–	(125,165)	–	(125,165)
Other changes	–	55,484	–	55,484
Ending net assets	<u>\$ 8,451,106</u>	<u>\$ 1,047,360</u>	<u>\$ 6,496,106</u>	<u>\$ 15,994,572</u>

#### 13. Employee Retirement Benefits

Effective April 1, 1999, the Society converted the former Profit Sharing Plan and Trust (the Plan) (placed into service April 1, 1992) into a defined contribution retirement plan in accordance with the provisions of Section 401(k) of the Code. The Plan covers substantially all full-time employees of the Society who have at least three months of service and are age 21 or older. Participants may contribute up to the lesser of 90% of eligible compensation or \$18,000 in calendar year 2016. 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 \$420,865 and \$314,737 for the years ended December 31, 2016 and 2015, respectively. The Society's profit-sharing contribution to the Plan was \$0 for the years ended December 31, 2016 and 2015.

## The Detroit Zoological Society

### Notes to Financial Statements (continued)

#### 14. Concession and Merchandising Contract With Service Systems Associates, Inc. (SSA)

SSA operates the food services and retail operations at the Zoo through a contract which commenced on January 1, 2011. The payment to the Society is on a commission basis based on sales with a minimum guaranteed payment based on attendance. The contract further provides that SSA will contribute 3% of non-Society catering revenue annually towards the promotion of special events at the Zoo. It will also contribute \$12,500 to the Society's annual fund-raiser. SSA has agreed to fund approximately \$2,600,000 in capital improvements to the Zoo's facilities per the contract. As of December 31, 2016, all of the capital improvements to the Zoo's facilities were substantially completed. The agreement with SSA has been extended until December 31, 2020.

#### 15. Operating Expense by Type

	<b>Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Personnel expenses	<b>\$ 18,927,589</b>	\$ 16,979,359
Overhead/occupancy	<b>2,953,636</b>	3,122,762
Donated services	<b>3,244,863</b>	3,047,098
Supplies	<b>1,715,839</b>	1,505,624
Professional services	<b>1,014,903</b>	1,118,547
Contracted services	<b>3,649,454</b>	3,182,477
Computer and office equipment	<b>380,752</b>	266,709
Repair and maintenance	<b>743,665</b>	640,830
Animal care	<b>1,586,507</b>	1,397,798
Advertising and marketing	<b>1,339,745</b>	1,377,383
Exhibits	<b>276,739</b>	205,780
Events and fund-raising	<b>352,375</b>	316,234
Depreciation and interest	<b>256,902</b>	301,047
Travel	<b>178,342</b>	198,872
Other expenses	<b>747,961</b>	402,527
<b>Total expenses</b>	<b><u>\$ 37,369,272</u></b>	<b><u>\$ 34,063,047</u></b>

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