

Memphis Zoological Society

Financial Statements

As of and for the Years Ended
June 30, 2020 and 2019

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Memphis Zoological Society Board of Directors and Management Officials

Officers

Thomas Farnsworth III, Chairman

Dorothy Kirsch, Secretary

Jerry Shore, Treasurer

Richard Smith, Vice Chair

Diane Smith, Past Co-Chair

Gene Holcomb, Past Co-Chair

Ex Officio

Jim Dean, President/CEO

Melinda Kauffman, Docent/Representative

Worth Morgan, City Council Representative

Prince Chambliss, City Representative

Directors

Lydia Bors-Koefoed

Chance Carlisle

Samantha Dean

Dr. Joe DeWane

Delisa Eddings

David Hopkins

Henry Hutton

Maria Leggett

Jason Maykowski

Scott McCormick

Joyce Mollerup

Carol Prentiss

David Thornton

Kelly Truitt

Mario Walker

George (Byrne) Whitehead

Financial Officer

Mary Ann Beil, CFO

Independent Auditors' Report

Board of Directors
Memphis Zoological Society
Memphis, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of Memphis Zoological Society (the "Society"), a component unit of the City of Memphis, Tennessee, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 auditors' 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 Memphis Zoological Society as of June 30, 2020 and 2019, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Society adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) in fiscal 2020. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The listing of Board of Directors and Management Officials is presented for purposes of additional information is not a required part of the financial statements. This other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 on our consideration of the Society's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Society's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Memphis, Tennessee
October 19, 2020

Memphis Zoological Society
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 3,139,697	\$ 6,087,794
Cash-restricted use	250,000	1,000,000
Investments	8,014,148	7,756,781
Pledges receivables, net	690,043	766,440
Inventories	404,406	262,412
Prepaid assets	221,166	354,934
Other assets	306,239	384,766
Other receivables	76,388	305,967
Receivable from City of Memphis	113,231	298,601
Property, net	41,392	44,681
	<u>41,392</u>	<u>44,681</u>
Total assets	<u><u>\$ 13,256,710</u></u>	<u><u>\$ 17,262,376</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, trade	\$ 754,143	\$ 1,055,755
Accrued expenses	1,064,817	1,008,553
Accrued payroll	303,741	158,788
Deferred revenue	1,141,043	1,707,437
Notes payable	1,651,200	-
	<u>1,651,200</u>	<u>-</u>
Total liabilities	<u>4,914,944</u>	<u>3,930,533</u>
Net assets:		
Without donor restrictions:		
Undesignated	(952,895)	3,633,399
Board designated, construction	250,000	1,000,000
	<u>(702,895)</u>	<u>4,633,399</u>
With donor restrictions	9,044,661	8,698,444
	<u>9,044,661</u>	<u>8,698,444</u>
Total net assets	<u>8,341,766</u>	<u>13,331,843</u>
Total liabilities and net assets	<u><u>\$ 13,256,710</u></u>	<u><u>\$ 17,262,376</u></u>

See accompanying notes.

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Operating revenue, gains and other support:			
Gate admissions	\$ 3,584,335	\$ -	\$ 3,584,335
Membership income	2,629,898	-	2,629,898
Parking income	403,671	-	403,671
Retail income	1,895,293	-	1,895,293
Concessions income	232,332	-	232,332
Culinary income	546,122	-	546,122
Seasonal exhibit income	387,211	-	387,211
Rides income	116,906	-	116,906
City management fee	1,200,000	-	1,200,000
Special events	1,931,486	-	1,931,486
Private events	980,741	-	980,741
Educational income	131,782	-	131,782
Grant income	68,298	-	68,298
Donations and bequests	294,895	-	294,895
Other income	6,227	-	6,227
Total operating revenue, gains, and other support	14,409,197	-	14,409,197
Conservation revenue:			
Donations and bequests	-	13,418	13,418
Total conservation revenue	-	13,418	13,418
Capital revenue:			
Donations and bequests, net of present value adjustment for pledges receivable	-	183,000	183,000
Investment income	-	248,797	248,797
Total capital revenue	-	431,797	431,797
Net assets released from restrictions:			
Satisfaction of program restrictions	98,998	(98,998)	-
Total revenue, gains and other support	14,508,195	346,217	14,854,412
Expenses:			
Program services:			
Animal care and exhibits	8,889,034	-	8,889,034
Research and conservation	1,116,736	-	1,116,736
Education and outreach	761,470	-	761,470
Visitor services	1,562,861	-	1,562,861
Retail services	1,294,443	-	1,294,443
Culinary services	1,299,269	-	1,299,269
Support services:			
Management and general	2,257,543	-	2,257,543
Fundraising, events and development	2,663,133	-	2,663,133
Total expenses	19,844,489	-	19,844,489
Change in net assets	(5,336,294)	346,217	(4,990,077)
Net assets, beginning of year	4,633,399	8,698,444	13,331,843
Net assets, end of year	\$ (702,895)	\$ 9,044,661	\$ 8,341,766

See accompanying notes.

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Operating revenue, gains and other support:			
Gate admissions	\$ 5,788,012	\$ -	\$ 5,788,012
Membership income	2,680,641	-	2,680,641
Parking income	701,261	-	701,261
Retail income	2,479,599	-	2,479,599
Concessions income	644,599	-	644,599
Seasonal exhibit income	315,797	-	315,797
Rides income	254,634	-	254,634
City management fee	1,200,000	-	1,200,000
Special events	2,012,512	-	2,012,512
Private events	1,207,860	-	1,207,860
Educational income	275,504	-	275,504
Grant income	147,510	-	147,510
Donations and bequests	152,923	-	152,923
Other income	11,360	-	11,360
Total operating revenue, gains, and other support	17,872,212	-	17,872,212
Conservation revenue:			
Donations and bequests	-	15,403	15,403
Total conservation revenue	-	15,403	15,403
Capital revenue:			
Donations and bequests, net of present value adjustment for pledges receivable	-	1,094,066	1,094,066
Investment income	-	426,959	426,959
License fee income	16,431	-	16,431
Total capital revenue	16,431	1,521,025	1,537,456
Net assets released from restrictions:			
Satisfaction of program restrictions	915,896	(915,896)	-
Total revenue, gains and other support	18,804,539	620,532	19,425,071
Expenses:			
Program services:			
Animal care and exhibits	9,272,902	-	9,272,902
Research and conservation	1,200,245	-	1,200,245
Education and outreach	501,688	-	501,688
Visitor services	1,108,992	-	1,108,992
Retail services	1,638,965	-	1,638,965
Support services:			
Management and general	2,448,218	-	2,448,218
Fundraising, events and development	2,670,497	-	2,670,497
Total expenses	18,841,507	-	18,841,507
Change in net assets	(36,968)	620,532	583,564
Net assets, beginning of year	4,670,367	8,077,912	12,748,279
Net assets, end of year	\$ 4,633,399	\$ 8,698,444	\$ 13,331,843

See accompanying notes.

Memphis Zoological Society
Statement of Functional Expenses
June 30, 2020

	Animal Care and Exhibits	Research and Conservation	Education and Outreach	Visitor Services	Retail Services	Culinary Services	Management and General	Fundraising, Events, and Development	Total
Salaries	\$ 4,069,919	\$ 291,966	\$ 529,616	\$ 1,079,632	\$ 473,791	\$ 490,772	\$ 781,387	\$ 523,500	\$ 8,240,583
Benefits	881,290	55,527	105,225	187,044	79,887	83,128	164,559	83,101	1,639,761
Outside services and professional fees	521,647	10,097	19,449	195,127	34,045	59,003	203,242	431,661	1,474,271
Shipping and delivery	21,484	2,207	151	6,898	44,738	48	4,772	19,768	100,066
Food and beverage	2,489	-	5,282	784	-	28,714	1,425	3,230	41,924
Bank charges	-	-	-	-	-	-	274,014	-	274,014
Information technology	74,154	1,216	5,927	25,934	29,068	232,960	71,779	143,335	584,373
Insurance	273,565	-	-	-	-	-	65,293	-	338,858
Animal nutrition	742,859	-	-	-	-	-	-	-	742,859
Supplies and equipment	1,316,933	55,241	52,938	61,487	16,556	81,601	266,850	724,712	2,576,318
Depreciation	-	3,289	-	-	-	-	-	-	3,289
Repairs and maintenance	84,952	2,210	3,825	1,531	1,316	16,367	21,488	8,876	140,565
Travel and meals	40,280	20,501	12,037	4,424	3,011	11,422	28,320	14,883	134,878
Utilities	849,437	1,291	-	-	-	-	364,044	-	1,214,772
Cost of goods sold	-	-	-	-	563,422	294,608	-	716,281	1,574,311
Conservation and grant activities	25	672,221	27,020	-	-	-	-	-	699,266
Capital improvements	10,000	970	-	-	49,184	-	10,000	-	70,154
Other	-	-	-	-	(575)	646	370	(6,214)	(5,773)
Total Expenses	\$ 8,889,034	\$ 1,116,736	\$ 761,470	\$ 1,562,861	\$ 1,294,443	\$ 1,299,269	\$ 2,257,543	\$ 2,663,133	\$ 19,844,489

See accompanying notes.

Memphis Zoological Society
Statement of Functional Expenses
June 30, 2019

	Animal Care and Exhibits	Research and Conservation	Education and Outreach	Visitor Services	Retail & Culinary Services	Management and General	Fundraising, Events, and Development	Total
Salaries	\$ 4,085,523	\$ 272,918	\$ 321,662	\$ 921,102	\$ 474,819	\$ 440,505	\$ 597,124	\$ 7,113,653
Benefits	802,679	46,167	53,462	106,652	72,703	140,594	90,460	1,312,717
Outside services and professional fees	653,678	-	15,630	44,786	10,375	338,115	285,797	1,348,381
Shipping and delivery	47,911	3,155	192	6,440	53,895	6,211	35,318	153,122
Food and beverage	1,899	6	5,666	19	-	552	15,416	23,558
Bank charges	-	-	-	-	-	293,324	-	293,324
Information technology	128,497	32,124	17,816	-	-	151,443	110,440	440,320
Insurance	277,858	-	-	-	-	68,047	-	345,905
Animal nutrition	1,025,052	-	-	-	-	-	-	1,025,052
Supplies and equipment	821,013	38,047	35,916	26,259	25,448	247,055	691,347	1,885,085
Depreciation	3,289	-	-	-	-	-	-	3,289
Repairs and maintenance	130,884	908	1,000	3,616	487	33,578	14,537	185,010
Travel and meals	58,293	19,849	9,399	158	3,456	73,083	16,183	180,421
Utilities	959,853	-	-	-	154,508	56,022	141,824	1,312,207
Cost of goods sold	-	-	-	-	843,274	-	672,051	1,515,325
Conservation and grant activities	-	793,478	40,900	-	-	-	-	834,378
Capital improvements	276,420	-	-	-	-	599,681	-	876,101
Other	53	(6,407)	45	(40)	-	8	-	(6,341)
Total Expenses	\$ 9,272,902	\$ 1,200,245	\$ 501,688	\$ 1,108,992	\$ 1,638,965	\$ 2,448,218	\$ 2,670,497	\$ 18,841,507

See accompanying notes.

Memphis Zoological Society
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating activities:		
Change in net assets	\$ (4,990,077)	\$ 583,564
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,289	3,290
Unrealized gain on investments, net	(62,419)	(209,329)
Change in operating assets and liabilities:		
Pledges receivable	76,397	(197,752)
Receivable from City of Memphis	185,370	(256,023)
Inventories	(141,994)	(5,861)
Other assets	441,874	339,572
Accounts payable and accrued expenses	(100,395)	(278,841)
Deferred revenue	(566,394)	199,290
Total adjustments	(164,272)	(405,654)
Net cash provided by (used in) operating activities	(5,154,349)	177,910
Investing activities:		
Purchases of investments	(194,948)	(9,277,393)
Proceeds on sales of investments	-	9,049,469
Net cash used in investing activities	(194,948)	(227,924)
Financing activities:		
Proceeds from government notes payable	1,651,200	-
Net cash used financing activities	1,651,200	-
Net decrease in cash and cash equivalents	(3,698,097)	(50,014)
Cash and cash equivalents, beginning of year	7,087,794	7,137,808
Cash and cash equivalents, end of year	<u>\$ 3,389,697</u>	<u>\$ 7,087,794</u>
Cash and cash equivalents:		
Cash and cash equivalents	\$ 3,139,697	\$ 6,087,794
Cash - restricted use	250,000	1,000,000
Cash and cash equivalents, end of year	<u>\$ 3,389,697</u>	<u>\$ 7,087,794</u>

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization purpose

The purpose of the Memphis Zoological Society (the "Society") is to manage and support the Memphis Zoo and Aquarium (the "Zoo") in its efforts to preserve wildlife through education, conservation and research. All land, buildings, exhibits and other physical assets used by the Society are the property of the City of Memphis (the "City").

The Society previously operated on a 52-53 week fiscal year ending on the last Sunday in the month of June. The year ended June 30, 2019 contained 53 weeks. Effective July 1, 2019, the Society adopted a calendar month fiscal year ending June 30th.

Basis of presentation

The financial statements of the Society have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Society to report information regarding its financial position and activities according to the following net asset classifications:

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 organization. These net assets may be used at the discretion of the Society's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donor 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. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Going Concern

In March 2020, the outbreak and spread of the COVID-19 virus was classified as a pandemic by the World Health Organization. The Society's liquidity and capital needs were negatively impacted due to restrictions imposed by governmental authorities that caused significant declines in attendance at the Zoo. The Society has evaluated the impact the pandemic will have on revenues, profitability and financial position, and applied for and received Paycheck Protection Program (PPP) Loan under the Small Business Administration's 7(a) program as discussed in Note 7. In addition, the Society has requested and obtained CARES Act grants as discussed in Note 1 and has a line of credit available as discussed in Note 6. Management believes the funds available from these sources alleviate substantial doubt about the Society's ability to continue as a going concern.

Revenue recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. The Society reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the purpose for which an asset was restricted has been accomplished, or a time restriction has expired, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Support that has donor restrictions is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

The Society reports gifts of assets as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to

be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. At June 30, 2020, there were no unconditional contributions.

Government grants are recognized as revenue over time as related expenses are incurred. Contract assets represent expenditures in excess of grant funds received under specific grants. Contract liabilities or deferred revenue represent funds received in excess of qualifying expenditures.

Membership revenue is recognized as performance obligations are satisfied over time, typically one year. Unearned membership are reflected as deferred revenue.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased.

Investment valuation and income recognition

Investments are reported at fair value. Fair value is 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. See Note 4 for discussion of fair value measurements. Adjustments to fair value are recognized in the statement of activities as with donor or without donor restrictions, as stipulated by the donor. Although the Society has a policy to maintain a diversified investment portfolio, these investments are subject to market and credit risks which may be affected by economic developments in a specific geographic region or industry.

Inventories

Merchandise inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Pledges receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific pledge accounts. Past due balances and delinquent receivables are charged against the allowance, or written off to bad debt expense, when they are determined to be uncollectible by management.

Property

Depreciation, which was approximately \$3,289 in both fiscal 2020 and 2019, is computed using the straight-line method over 30 years. Accumulated depreciation was \$57,291 and \$54,002 as of June 30, 2020 and June 30, 2019, respectively.

Expenditures that extend the remaining useful lives of property are capitalized and the cost of routine maintenance and repairs is charged to expense as incurred.

Income taxes

The Society is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and similar Tennessee law and has been determined to be an organization which is not a private foundation. The Society has determined that it does not have any material uncertain tax positions as of June 30, 2020 or June 30, 2019.

Taxes collected from customers and remitted to governmental authorities

The Society records revenue exclusive of any applicable sales and other related revenue transaction taxes (net method).

Donated services

The Society receives donated services from volunteers. The value of these services is not recognized in the financial statements since they do not meet the criteria specified by GAAP.

Use of estimates

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Functional expense allocation

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management. The expenses that are allocated include utilities and insurance, which are allocated on a square-footage basis, as well as salaries, benefits, information technology and other services, which are allocated based on estimates of time and effort. Culinary services are presented separately from retail services beginning in fiscal 2020 as the Society brought culinary services in-house in January 2020. Culinary services expenses include significant start-up costs and equipment during fiscal 2020.

Advertising

The Society expenses the costs associated with advertising as incurred. Amounts charged to advertising expense for fiscal 2020 and 2019 were approximately \$299,000 and \$310,000, respectively.

Concentration and risks

The Society has concentrations of credit risk with certain financial institutions in the form of bank cash in excess of federally insured limits.

Recent accounting pronouncements

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that receive or make contributions, including business entities. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional.

For federal and other government grants, ASU 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported on these statements.

The Society has adopted the amendments of ASU 2018-08 on contributions received during fiscal year 2020. The adoption did not have a significant effect on the financial statements.

Memphis Zoological Society
Notes to Financial Statements

The Society also adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective July 1, 2019. The impact of applying this ASU for the year ended June 30, 2020 was determined to be immaterial.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent events

The Society has evaluated the effect subsequent events would have on the financial statements through October 19, 2020, which is the date the financial statements were available to be issued.

Subsequent to the financial statement position date, the Society received a grant in the amount of \$5,731,700 from the City of Memphis and expects to be reimbursed \$160,000 from Shelby County, which are considered related parties. These grants were made available due to the state and local government funding provisions of the federal CARES Act. These funds are restricted for funding necessary business operations and expenditures for which funding is otherwise unavailable due to COVID-19 related business interruptions. Management expects to spend all of the funds on qualifying expenditures prior to December 30, 2020, as specified in the agreement. Any funds not spent for qualifying expenditures by this date must be returned.

2. Availability and Liquidity

The following represents the Society’s financial assets available within one year of the statement of financial position dates for general expenditure:

The Society’s financial assets comprised of the following as of the statement of financial position date:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents, including restricted use	\$ 3,389,697	\$ 7,087,794
Accounts receivable, net	76,388	305,967
Pledges receivable, net	690,043	766,440
Receivable from the City of Memphis	113,231	298,601
Investments	<u>8,014,148</u>	<u>7,756,781</u>
Total financial assets	12,283,507	16,215,583
Less amounts not available to be used within one year:		
Board designated net assets	250,000	1,000,000
Net assets with donor restrictions	<u>9,320,284</u>	<u>8,698,444</u>
	<u>9,570,284</u>	<u>9,698,444</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,713,223</u>	<u>\$ 6,517,139</u>

Management’s goal is to maintain minimum cash and cash equivalents sufficient to meet 25% of annual operating expenses. The Society also has a line of credit available as discussed in Note 6.

3. Pledges Receivable

Pledges receivable at June 30, 2020 and June 30, 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Due in:		
Less than one year	\$ 228,500	\$ 203,000
One to five years	350,000	363,000
More than five years	<u>142,500</u>	<u>242,500</u>
	<u>721,000</u>	808,500
Less: Allowance for doubtful pledges	-	(1,000)
Present value discount of pledges	<u>(30,957)</u>	<u>(41,060)</u>
	<u>\$ 690,043</u>	<u>\$ 766,440</u>

Pledges receivable are discounted at rates ranging between 1.48% and 2.47%. Pledges receivable from two donors at June 30, 2020, comprise approximately 99% of gross pledges receivable while a pledge receivable from two donors comprised approximately 97% of gross pledges receivable at June 30, 2019.

4. Fair Value Measurement

Fair value as defined under GAAP is an exit price, representing 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. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Society had a beneficial interest in certain funds, which were held by the Community Foundation of Greater Memphis ("CFGF"). During fiscal 2019, these funds were liquidated and reinvested with another trustee.

There were no changes in fiscal 2020 or 2019 to the Society's valuation techniques used to measure asset and liability fair values on a recurring basis.

Mutual funds

Mutual funds are publicly traded investments and are valued daily at the closing price reported on the active market on which the funds are traded.

Exchange traded funds

Exchange traded funds are publicly traded investments and are valued continuously on the active market on which the funds are traded.

Memphis Zoological Society
Notes to Financial Statements

The following table sets forth by level, within the fair value hierarchy, the Society's financial assets and liabilities accounted for at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Society's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Exchange traded fund	\$ 199,360	\$ -	\$ -	\$ 199,360
High yield money market	159,804	-	-	159,804
Mutual funds – fixed income	1,688,909	-	-	1,688,909
Mutual funds – equity	5,966,075	-	-	5,966,075
Total	\$ 8,014,148	\$ -	\$ -	\$ 8,014,148

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
High yield money market	\$ 200,503	\$ -	\$ -	\$ 200,503
Mutual funds – fixed income	147,596	-	-	147,596
Mutual funds – equity	<u>7,408,682</u>	<u>-</u>	<u>-</u>	<u>7,408,682</u>
Total	<u>\$ 7,756,781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,756,781</u>

The following table illustrates the activity of Level 3 assets for fiscal 2019:

	CFGM Balance Pool	CFGM Equity Pool
Fair value at beginning of year	\$ 3,569,124	\$ 2,800,708
Sale of assets	(3,464,985)	(2,651,665)
Realized gain (loss)	7,766	(119,054)
Unrealized loss	(138,949)	(47,245)
Reinvested interest and dividend income	<u>27,044</u>	<u>17,256</u>
Fair value at end of year	<u>\$ -</u>	<u>\$ -</u>

The Society has a nonqualified 457 deferred compensation plan for a certain former executive whereby the executive voluntarily deferred a portion of his compensation into the Plan. In addition, the executive self-directs the investment of his contribution. The Society may make discretionary contributions to the Plan. There were no Society discretionary contributions during fiscal 2020 and 2019. The plan had a fair value of \$171,939 and \$249,385 as of June 30, 2020 and 2019, respectively. This amount is included in both other assets and accrued expenses on the statements of financial position.

5. Investment Income

Investment income consists of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 186,378	\$ 217,630
Realized and unrealized gains, net	<u>62,419</u>	<u>209,329</u>
	<u>\$ 248,797</u>	<u>\$ 426,959</u>

Changes in the net unrealized market appreciation or depreciation during the year pertaining to investments owned on the last day of the year are included in investment income in the statements of activities. Realized gains or losses on the sale of investments represent the difference between the proceeds received and the cost of the investments sold and are calculated based on the first-in, first-out method.

6. Line of Credit

The Society obtained a line of credit with a bank on April 10, 2020 with a total borrowing limit of \$2,500,000. The line bears interest at 30-day LIBOR plus 1.5% (2.25% at June 30, 2020) and expires on October 31, 2021 at which time all principal and interest payments become due. At June 30, 2020, the Society had no outstanding borrowings under this line of credit. The line is collateralized by the Society's endowment fund.

7. Notes Payable

Economic Injury Disaster Loan

In June 2020, the Society obtained an Economic Injury Disaster loan agreement from the Small Business Association in the amount of \$150,000. The loan has a maturity date of June 24, 2050 with principal and interest payments to begin twelve months from the date of the note. The loan bears interest at an annual rate of 2.75% which is due monthly. The entire principal balance was outstanding at June 30, 2020.

SBA Paycheck Protection Program Note

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. One provision of the CARES Act is the establishment of the Paycheck Protection Program (PPP) under the Small Business Administration's 7(a) program. The PPP provides for loans to be made to small businesses effected by the COVID-19 pandemic. If certain criteria are met, small businesses receiving PPP loans may have all or a portion of the loans forgiven, effectively converting the outstanding balance and accrued interest to a grant. Any portion of PPP loans not forgiven have a term of two years and bear interest at 1.0%, with repayments deferred for six months. In April 2020, the Corporation received a PPP loan in the amount of \$1,501,200. Management expects to have its PPP loan forgiven in fiscal 2021 and will recognize the amount in other income upon forgiveness.

Maturities of debt by fiscal year are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 660,229
2022	841,054
2023	3,615
2024	3,715
2025	3,819
Thereafter	<u>138,768</u>
	<u>\$ 1,651,200</u>

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2020 and June 30, 2019:

	<u>2020</u>	<u>2019</u>
Time restrictions	\$ 186,378	\$ 217,630
Purpose restrictions:		
Conservation	173,042	188,468
Capital	100,207	-
Endowment funds not subject to appropriation or expenditure	<u>8,585,034</u>	<u>8,292,346</u>
	<u>\$ 9,044,661</u>	<u>\$ 8,698,444</u>

Net assets of \$98,998 and \$915,896 were released from donor restrictions in fiscal 2020 and 2019, respectively, by incurring expenses in accomplishment of the restrictive purposes.

9. Endowment

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") 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. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization 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 organization, and (7) the investment policies of the organization.

Net assets with donor restrictions consist of one general endowment fund which represents the principal amount of gifts and bequests accepted with the donor stipulation that the principal be maintained intact in perpetuity. Income from these investments has heretofore all been reinvested, but if that practice ends, such income may then be expended for general purposes, subject to any constraints in gift instruments. By virtue of the terms of the endowment agreement, if, in any year, the earnings from the endowment fund are not expended, the earnings are to be added to the principal of the endowment. Investment losses also reduce the endowment principal.

Memphis Zoological Society

Notes to Financial Statements

If the earnings of the endowment investments, in any given fund year, are less than five percent of the average fair value of such investments, the endowment agreement stipulates that up to five percent of the principal may be drawn for use in general operations of the Society. Since its inception, no endowment principal has been drawn in such a manner. During fiscal 2020, the endowment fund had \$186,378 of investment earnings that remain in net assets with donor restrictions as of June 30, 2020.

The Society has adopted investment and spending policies for its endowment assets that are intended to grow the principal through capital appreciation (realized and unrealized), with a moderate level of investment risk. The Society uses a professionally managed asset allocation of primarily equity-based investments to achieve its long-term return objectives within prudent risk constraints. There are no underwater funds at June 30, 2020 or June 30, 2019.

The following table sets forth by asset class the changes in the Society's endowment for 2020 and 2019.

	<u>Donor Restricted</u>
Endowment net assets, June 24, 2018	\$ 7,865,411
Investment return:	
Investment income	217,630
Net appreciation (realized and unrealized)	209,329
Donations and present value adjustments	<u>217,606</u>
Changes in net assets	<u>644,565</u>
Less: Investment income available for general purposes	<u>(217,630)</u>
Endowment net assets, June 30, 2019	8,292,346
Investment return:	
Investment income	186,378
Net appreciation (realized and unrealized)	62,419
Donations and present value adjustments	<u>12,639</u>
Changes in net assets	<u>261,436</u>
Less: investment income available for general purposes	<u>(186,378)</u>
Add: prior year unspent funds reverted back to permanent	<u>217,630</u>
Endowment net assets, June 30, 2020	<u>\$ 8,585,034</u>

10. Retirement Plan

The Society sponsors a defined contribution retirement plan (the "401(k) Plan") covering employees meeting certain age and service requirements. The Society has the option to make matching contributions to the Plan on behalf of each participant. Society matching contributions to the 401(k) Plan were approximately \$240,000 and \$181,000 for fiscal 2020 and 2019, respectively.

11. Related Party Transactions

Zoo capital improvements of \$70,154 and \$876,101 were contributed by the Society to the City during fiscal 2020 and 2019, respectively.

The Society received management fees from the City in the amount of \$1,200,000 during fiscal 2020 and 2019. Additionally, the Society reimburses the City for costs the City pays on behalf of the Society including certain utilities and certain personnel costs. The net receivable from the City was \$113,231 and \$298,601 at June 30, 2020 and June 30, 2019, respectively.

12. Commitments and Contingencies

The Society has an agreement with the Chinese Association of Zoological Gardens (the “Chinese Party”) which expires April 7, 2023. The current agreement states that the Society will transfer \$500,000 per year to the Chinese Party for the purpose of supporting Chinese conservation projects for the giant panda. In addition, the Society is also required to transfer \$50,000 per year for the purpose of subsidizing projects in China. The fiscal 2020 payment of \$500,000 was remitted to the Chinese Party in September 2020 while the fiscal 2019 payment of \$500,000 was remitted in August 2019. The fiscal 2020 amount was included in accrued expenses at June 30, 2020.

The Society has committed to a plan to construct additional parking areas. Per City Council resolution, the cost is to be split evenly between the Society and the Overton Park Conservancy. The Society's estimated portion is \$1,500,000. The resolution also required the Society to set aside \$1,000,000 for construction cost, which is recorded as restricted cash and board designated funds at June 30, 2020. The Society made payments totaling \$750,000 to the City of Memphis during fiscal 2020, leaving \$250,000 as restricted cash and board designated funds at June 30, 2020.

The Society is, from time to time, involved in various legal matters arising during the normal course of operations. Management does not expect the impact of the resolution of these legal matters to have a material effect on the financial position, results of activities or cash flows of the Society.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Memphis Zoological Society
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Memphis Zoological Society (the "Society"), a component unit of the City of Memphis, Tennessee, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows and the related notes to the financial statements for the year then ended, and have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Society's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Society's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management discovered instances of employee cash theft that they considered immaterial to the financial statements but resulted in management evaluating and making changes to internal controls. The improvements include enhancements to the point of sale system, more frequent cash drawer pick-ups, cash audits, camera reviews, end of day check out reporting and discrepancy reviews. We recommend that management follow up on the newly implemented controls and monitor their effectiveness.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Memphis, Tennessee
October 19, 2020**

**Memphis Zoological Society
Schedule of Current and Prior Year Audit Findings
For the Year Ended June 30, 2020**

Financial Statement Findings

Current Year Findings

There were no current year findings reported.

Prior Year Findings

There were no prior year findings reported.