

Memphis Zoological Society

Financial Statements and Supplementary Information

Years Ended June 30, 2022 and 2021

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Memphis Zoological Society

Board of Directors and Management Officials

Officers

Thomas Farnsworth III, Chairman
Dorothy Kirsch, Secretary
David Hopkins, Treasurer
Jerry Shore, Vice Chair
Diane Smith, Past Co-Chair

Ex Officio

Jim Dean, President/CEO
Barbara Edward, Docent/Representative
Dr. Jeff Warren, City Council Representative
Prince Chambliss, City Representative

Directors

Lydia Bors-Koefoed
Samantha Dean
Dr. Joe DeWane
Delisa Eddings
Steve 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 Auditor's Report

Board of Directors
Memphis Zoological Society
Memphis, TN

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes 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.

Basis for Opinion

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

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.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

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

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 and the Schedule of Expenditures of Federal Awards and State Financial Assistance are presented for purposes of additional analysis and are not required parts of the financial statements.

The Schedule of Expenditures of Federal Awards and State Financial Assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

The listing of the Board of Directors and Management Officials 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 31, 2022, on our consideration of the Society's internal control over financial reporting and on 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.

FORVIS, LLP

**Memphis, TN
October 31, 2022**

Memphis Zoological Society
Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 8,442,517	\$ 10,549,083
Cash-restricted use	250,000	250,000
Investments	9,020,889	9,971,695
Pledges receivables, net	222,682	524,859
Inventories	341,123	263,939
Prepaid assets	906,261	653,953
Other assets	139,520	222,727
Other receivables	187,982	150,741
Receivable from City of Memphis	686,339	351,142
Property, net	1,613,448	1,488,425
	<u>1,613,448</u>	<u>1,488,425</u>
Total assets	<u>\$ 21,810,761</u>	<u>\$ 24,426,564</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, trade	\$ 947,738	\$ 375,044
Accrued expenses	1,424,654	1,011,376
Accrued payroll	440,495	321,511
Deferred revenue	2,258,188	2,170,211
Notes payable	2,370,107	-
	<u>2,370,107</u>	<u>-</u>
Total liabilities	7,441,182	3,878,142
Net assets:		
Without donor restrictions:		
Undesignated	4,714,649	9,472,070
Board designated, endowment	6,156,663	-
Board designated, construction	250,000	250,000
	<u>250,000</u>	<u>250,000</u>
	11,121,312	9,722,070
With donor restrictions	3,248,267	10,826,352
	<u>3,248,267</u>	<u>10,826,352</u>
Total net assets	<u>14,369,579</u>	<u>20,548,422</u>
Total liabilities and net assets	<u>\$ 21,810,761</u>	<u>\$ 24,426,564</u>

See accompanying notes.

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Operating revenue, gains and other support:			
Gate admissions	\$ 7,378,395	\$ -	\$ 7,378,395
Membership income	3,989,932	-	3,989,932
Parking income	1,107,746	-	1,107,746
Retail income	3,776,360	-	3,776,360
Culinary income	4,851,600	-	4,851,600
Seasonal exhibit income	741,643	-	741,643
Rides income	290,878	-	290,878
Special events	2,431,074	-	2,431,074
Educational income	192,480	-	192,480
Grant income	90,688	-	90,688
City management fee	1,200,000	-	1,200,000
Donations and bequests	350,269	-	350,269
Other income	111,141	-	111,141
Total operating revenue, gains, and other support	26,512,206	-	26,512,206
Conservation revenue:			
Donations and bequests	-	16,311	16,311
Total conservation revenue	-	16,311	16,311
Capital revenue (loss):			
Donations and bequests, net of present value adjustment for pledges receivable	24,673	116,787	141,460
Investment loss, net	(1,119,413)	(315,744)	(1,435,157)
Total capital revenue (loss)	(1,094,740)	(198,957)	(1,293,697)
Net assets released from restrictions:			
Satisfaction of program restrictions	136,760	(136,760)	-
Total revenue, gains and other support	25,554,226	(319,406)	25,234,820

See accompanying notes.

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2022

(Continued)

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses:			
Program services:			
Animal care and exhibits	9,630,603	-	9,630,603
Research and conservation	1,384,765	-	1,384,765
Education and outreach	1,551,005	-	1,551,005
Visitor services	7,835,412	-	7,835,412
Retail services	2,797,138	-	2,797,138
Culinary services	3,728,753	-	3,728,753
Support services:			
Management and general	2,301,241	-	2,301,241
Fundraising, events and development	2,184,746	-	2,184,746
Total expenses	31,413,663	-	31,413,663
Change in net assets	(5,859,437)	(319,406)	(6,178,843)
Modification of donor restrictions	7,258,679	(7,258,679)	-
Change in net assets	1,399,242	(7,578,085)	(6,178,843)
Net assets, beginning of year	9,722,070	10,826,352	20,548,422
Net assets, end of year	<u>\$ 11,121,312</u>	<u>\$ 3,248,267</u>	<u>\$ 14,369,579</u>

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Operating revenue, gains and other support:			
Gate admissions	\$ 7,299,792	\$ -	\$ 7,299,792
Membership income	2,698,795	-	2,698,795
Parking income	899,768	-	899,768
Retail income	3,262,421	-	3,262,421
Culinary income	3,544,734	-	3,544,734
Seasonal exhibit income	847,034	-	847,034
Rides income	213,986	-	213,986
Special events	1,566,301	-	1,566,301
Educational income	110,252	-	110,252
Grant income	62,483	-	62,483
City management fee	1,200,000	-	1,200,000
Gain on forgiveness of PPP Loan	1,501,200	-	1,501,200
Donations and bequests	8,579,192	-	8,579,192
Other income	43,445	-	43,445
Total operating revenue, gains, and other support	31,829,403	-	31,829,403
Conservation revenue:			
Donations and bequests	-	18,720	18,720
Total conservation revenue	-	18,720	18,720
Capital revenue:			
Donations and bequests, net of present value adjustment for pledges receivable	-	31,146	31,146
Capital grant	-	150,000	150,000
Investment income, net	-	1,886,158	1,886,158
Total capital revenue	-	2,067,304	2,067,304
Net assets released from restrictions:			
Satisfaction of program restrictions	304,333	(304,333)	-
Total revenue, gains and other support	32,133,736	1,781,691	33,915,427

See accompanying notes.

Memphis Zoological Society
Statement of Activities
Year Ended June 30, 2021

(Continued)

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses:			
Program services:			
Animal care and exhibits	6,862,477	-	6,862,477
Research and conservation	2,385,990	-	2,385,990
Education and outreach	949,735	-	949,735
Visitor services	1,929,148	-	1,929,148
Retail services	2,231,744	-	2,231,744
Culinary services	3,148,478	-	3,148,478
Support services:			
Management and general	2,018,946	-	2,018,946
Fundraising, events and development	2,182,253	-	2,182,253
Total expenses	21,708,771	-	21,708,771
Change in net assets	10,424,965	1,781,691	12,206,656
Net assets, beginning of year	(702,895)	9,044,661	8,341,766
Net assets, end of year	\$ 9,722,070	\$ 10,826,352	\$ 20,548,422

Memphis Zoological Society
Statement of Functional Expenses
Year Ended June 30, 2022

	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	\$ 4,560,868	\$ 516,412	\$ 1,108,126	\$ 1,564,713	\$ 892,343	\$ 1,083,122	\$ 954,581	\$ 542,518	\$ 11,222,683
Benefits	1,015,994	110,731	211,319	310,069	174,382	211,988	200,990	98,804	2,334,277
Outside services and professional fees	475,412	33,169	73,456	313,558	53,694	239,815	311,534	256,514	1,757,152
Shipping and delivery	18,122	1,650	2,174	12,591	122,984	3,726	6,579	10,201	178,027
Food and beverage	4,846	161	4,181	1,219	429	17,462	1,582	9,910	39,790
Bank charges	351	34	15,782	387,797	90,316	76,270	25,348	8,406	604,304
Information technology	116,019	10,666	27,950	232,367	30,696	90,173	67,920	97,396	673,187
Insurance	200,434	7,043	16,434	51,649	18,781	28,172	21,129	18,781	362,423
Animal nutrition	893,613	891	690	2,170	789	1,183	888	789	901,013
Supplies and equipment	1,035,358	64,827	69,197	438,284	98,076	84,762	133,907	1,029,251	2,953,662
Depreciation	1,645	1,645	-	-	-	-	28,455	-	31,745
Repairs and maintenance	166,164	4,383	2,557	18,413	17,830	75,948	92,378	13,005	390,678
Travel and meals	43,340	13,279	18,223	11,967	1,551	1,126	6,157	5,748	101,391
Utilities	934,805	811	-	-	-	-	401,655	-	1,337,271
Cost of goods sold	-	-	-	-	1,294,991	1,598,869	-	56,115	2,949,975
Conservation and grant activities	6,545	618,805	315	990	360	540	405	360	628,320
Capital improvements	154,425	-	-	4,487,736	-	94,106	46,824	36,527	4,819,618
Federal and state income taxes	-	-	-	-	-	120,868	-	-	120,868
Other	2,662	258	601	1,889	(84)	623	909	421	7,279
Total expenses	<u>\$ 9,630,603</u>	<u>\$ 1,384,765</u>	<u>\$ 1,551,005</u>	<u>\$ 7,835,412</u>	<u>\$ 2,797,138</u>	<u>\$ 3,728,753</u>	<u>\$ 2,301,241</u>	<u>\$ 2,184,746</u>	<u>\$ 31,413,663</u>

See accompanying notes.

Memphis Zoological Society
Statement of Functional Expenses
Year Ended June 30, 2021

	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	\$ 2,982,941	\$ 1,346,824	\$ 676,954	\$ 1,159,932	\$ 521,141	\$ 1,035,944	\$ 858,040	\$ 449,335	\$ 9,031,111
Benefits	659,424	303,614	134,656	177,579	89,839	152,287	170,575	84,304	1,772,278
Outside services and professional fees	360,738	31,264	53,775	139,055	24,481	160,959	202,466	346,508	1,319,246
Shipping and delivery	33,963	2,140	568	6,774	52,197	698	4,410	1,415	102,165
Food and beverage	330	-	188	122	-	75,895	8,856	27,304	112,695
Bank charges	138	-	9,888	320,810	65,140	54,202	18,360	3,317	471,855
Information technology	66,825	1,375	9,810	58,187	31,494	95,324	78,681	224,334	566,030
Insurance	276,666	-	-	-	-	-	66,622	-	343,288
Animal nutrition	741,803	-	-	-	-	-	-	-	741,803
Supplies and equipment	648,083	103,336	50,783	54,791	56,310	135,720	141,578	773,137	1,963,738
Depreciation	-	3,289	-	-	-	-	-	-	3,289
Repairs and maintenance	121,695	15,240	2,735	7,409	3,561	41,744	73,679	4,539	270,602
Travel and meals	14,864	5,405	9,576	4,489	1,059	4,116	14,403	3,832	57,744
Utilities	872,153	1,608	-	-	-	-	374,114	-	1,247,875
Cost of goods sold	-	-	-	-	1,081,355	1,146,780	-	264,228	2,492,363
Conservation and grant activities	267	570,400	802	-	-	-	-	-	571,469
Capital improvements	82,587	1,495	-	-	305,269	247,435	4,802	-	641,588
Other	-	-	-	-	(102)	(2,626)	2,360	-	(368)
Total expenses	\$ 6,862,477	\$ 2,385,990	\$ 949,735	\$ 1,929,148	\$ 2,231,744	\$ 3,148,478	\$ 2,018,946	\$ 2,182,253	\$ 21,708,771

See accompanying notes.

Memphis Zoological Society
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities:		
Change in net assets	\$ (6,178,843)	\$ 12,206,656
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	31,745	3,289
Donation of real estate	-	(1,374,000)
Gain on forgiveness of PPP loan	-	(1,501,200)
Unrealized (gain) loss on investments, net	1,871,004	(1,672,887)
Change in operating assets and liabilities:		
Pledges receivable	302,177	165,184
Receivable from City of Memphis	(335,197)	(237,911)
Inventories	(77,184)	140,467
Other assets	(206,342)	(423,628)
Accounts payable and accrued expenses	1,104,956	(414,770)
Deferred revenue	87,977	1,029,168
Total adjustments	<u>2,779,136</u>	<u>(4,286,288)</u>
Net cash provided by (used in) operating activities	<u>(3,399,707)</u>	7,920,368
Investing activities:		
Purchases of fixed assets	(156,768)	(76,322)
Purchases of investments	<u>(920,198)</u>	<u>(284,660)</u>
Net cash used in investing activities	<u>(1,076,966)</u>	(360,982)
Financing activities:		
Payments on government notes payable	-	(150,000)
Proceeds from notes payable	<u>2,370,107</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>2,370,107</u>	<u>(150,000)</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,106,566)</u>	7,409,386
Cash and cash equivalents, beginning of year	<u>10,799,083</u>	<u>3,389,697</u>
Cash and cash equivalents, end of year	<u>\$ 8,692,517</u>	<u>\$ 10,799,083</u>
Cash and cash equivalents:		
Cash and cash equivalents	\$ 8,442,517	\$ 10,549,083
Cash - restricted use	<u>250,000</u>	<u>250,000</u>
Cash and cash equivalents, end of year	<u>\$ 8,692,517</u>	<u>\$ 10,799,083</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 8,588</u>	<u>\$ -</u>
Non-cash investing and financing transactions:		
Donation of real estate	<u>\$ -</u>	<u>\$ 1,374,000</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").

Basis of presentation

The financial statements of the Society have been prepared in accordance with U.S. generally accepted accounting principles ("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.

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, 2022 and 2021, there were no conditional 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 memberships are reflected as deferred revenue. Gate admissions, retail, special event and culinary sales revenue is recognized at the point of sale or when the event occurs.

During fiscal year 2021, the Society received a grant in the amount of \$5,731,700 from the City of Memphis and \$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 were restricted for funding necessary business operations and expenditures for which funding is otherwise unavailable due to COVID-19 related business interruptions. The Society spent all of the funds on qualifying expenditures prior to December 30, 2020, as specified in the agreement; therefore, the funds are included in revenues as donation and bequest without donor restrictions as of June 30, 2021.

During fiscal year 2020, the Society adopted an accounting policy to treat the Paycheck Protection Program loan as debt. Under the debt model, the liability is derecognized and a gain on extinguishment is recorded in the statement of net assets at the time of forgiveness (see Note 8).

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

Property and equipment are recorded at cost, if purchased, or at fair value at the date of gift, if donated. 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. During the year ended June 30, 2021, the Society received a donation of real estate appraised for \$1,374,000, which is recorded as donations and bequests in the statement of activities. Capital improvements are typically contributed as assets to the City. See Note 12.

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. However, the Society is subject to unrelated income taxes for certain culinary activities. Federal income tax expense of \$92,299 and state income tax expense \$28,569 have been recognized in culinary expenses in the statement of activities for the year ended June 30, 2022. There were no income tax expenses recognized for the year ended June 30, 2021. The Society has determined that it does not have any material uncertain tax positions as of June 30, 2022 or June 30, 2021.

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.

Advertising

The Society expenses the costs associated with advertising as incurred. Amounts charged to advertising expense for fiscal 2022 and 2021 were approximately \$369,000 and \$351,000, 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.

Subsequent events

The Society has evaluated the effect subsequent events would have on the financial statements through October 31, 2022, which is the date the financial statements were available to be issued. As further discussed in Note 13, subsequent to June 30, 2022, a City Council Resolution modified the Society's original commitments for the construction of parking areas.

Reclassifications

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

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 June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents, including restricted use	\$ 8,692,517	\$ 10,799,083
Accounts receivable, net	187,982	150,741
Pledges receivable, net	222,682	524,859
Receivable from the City of Memphis	686,339	351,142
Investments	<u>9,020,889</u>	<u>9,971,695</u>
Total financial assets	18,810,409	21,797,520
Less amounts not available to be used within one year:		
Board designated net assets	6,406,633	250,000
Net assets with donor restrictions	<u>3,248,267</u>	<u>10,826,352</u>
	<u>9,654,900</u>	<u>11,076,352</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,155,509</u>	<u>\$ 10,721,168</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 7.

3. Pledges Receivable

Pledges receivable at June 30, 2022 and June 30, 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Due in:		
Less than one year	\$ 50,000	\$ 161,000
One to five years	180,000	300,000
More than five years	<u>-</u>	<u>92,500</u>
	230,000	553,500
Less: Present value discount of pledges	<u>(7,318)</u>	<u>(28,641)</u>
	<u>\$ 222,682</u>	<u>\$ 524,859</u>

Pledges receivable are discounted at rates ranging between 1.48% and 2.47%. Pledges receivable from one donor comprises 100% of gross pledges receivable at June 30, 2022 and two donors comprise approximately 99% of gross pledges receivable at June 30, 2021.

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.

There were no changes in fiscal 2022 or 2021 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.

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, 2022				
	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 3,031,037	\$ -	\$ -	\$ 3,031,037
High yield money market	923,910	-	-	923,910
Mutual funds – fixed income	2,306,097	-	-	2,306,097
Mutual funds – equity	<u>2,759,845</u>	<u>-</u>	<u>-</u>	<u>2,759,845</u>
Total	<u>\$ 9,020,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,020,889</u>

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 2,073,178	\$ -	\$ -	\$ 2,073,178
High yield money market	210,764	-	-	210,764
Mutual funds – fixed income	2,265,930	-	-	2,265,930
Mutual funds – equity	<u>5,421,823</u>	<u>-</u>	<u>-</u>	<u>5,421,823</u>
Total	<u>\$ 9,971,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,971,695</u>

5. Investment Income (loss)

Investment income consists of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividend income, net of expenses	\$ 435,847	\$ 213,271
Realized and unrealized gains (losses)	<u>(1,871,004)</u>	<u>1,672,887</u>
	<u>\$ (1,435,157)</u>	<u>\$ 1,886,158</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. Property

A summary of property and equipment at December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Farmland	\$ 1,115,523	\$ -
Farmhouse	334,800	-
Condominium	98,683	98,683
Equipment	74,939	-
Improvements	81,828	-
Construction in progress	-	1,450,323
	<u>1,705,773</u>	<u>1,549,006</u>
Less accumulated depreciation	<u>(92,325)</u>	<u>(60,581)</u>
	<u>\$ 1,613,448</u>	<u>\$ 1,488,425</u>

Depreciation, which was \$31,745 and \$3,289 fiscal 2022 and 2021, respectively, is computed using the straight-line method.

7. 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, 2021) and originally expired on October 31, 2021. During fiscal 2022, the credit line was renewed and now expires on October 31, 2022, at which time all principal and interest payments become due. The renewed line bears interest at the prime rate plus 1% (3.75% at June 30, 2022). At June 30, 2022 and 2021, the Society had no outstanding borrowings under this line of credit. The line is collateralized by the Society's endowment fund.

8. Notes Payable

Economic Injury Disaster Loan

In June 2020, the Society obtained an Economic Injury Disaster loan agreement from the Small Business Administration in the amount of \$150,000. The loan had a maturity date of June 24, 2050, with principal and interest payments to begin twelve months from the date of the note. The loan bore interest at an annual rate of 2.75%. The entire principal balance was outstanding at June 30, 2020. This loan was paid in full during fiscal 2021.

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 ("SBA") 7(a) program. The PPP provides for loans to be made to small businesses effected by the COVID-19 pandemic. In April 2020, the Society received a PPP loan in the amount of \$1,501,200. The PPP loan has a term of 2 years and an interest rate of 1.00%. Pursuant to the CARES Act, the proceeds of the PPP loan may be used for payroll costs, mortgage interest, rent or utility costs. Under the terms of the CARES Act, the borrower can apply for and be granted forgiveness for all or a portion of the PPP loan. In March 2021, the Society received notification from the SBA that the PPP loan had been forgiven. As a result, the Society recognized \$1,501,200 as a gain on forgiveness of debt in the statement of activities for the year ended June 30, 2021.

Construction Loan

In June 2021, the Society entered into a loan agreement with a financial institution for purposes of funding the construction of a splash pad. The loan allows maximum borrowings up to \$4,500,000 and bears interest at a floating SOFR index plus 2.24% (2.84% at June 30, 2022). The loan has a floating 5 year maturity with 12 months of interest only payments followed by 48 monthly installments of principal in the amount of \$93,750 plus accrued interest beginning on July 5, 2022, and a final payment of any outstanding principal plus accrued interest through maturity on July 5, 2026. Amounts outstanding under this loan were \$2,370,107 and \$0 as of June 30, 2022 and 2021, respectively. Principal maturities are as follows:

<u>Year</u>	
2023	\$ 1,125,000
2024	1,125,000
2025	<u>120,107</u>
	<u>\$ 2,370,107</u>

The Society incurred interest expense under this agreement of approximately \$8,600 and \$0 in 2022 and 2021, respectively.

Under the terms of this agreement, the Society is required to meet certain financial covenants. The Society was in compliance with these covenants as of June 30, 2022.

9. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Time restrictions	\$ 86,908	\$ 213,271
Purpose restrictions:		
Conservation	161,359	165,021
Endowment funds not subject to appropriation or expenditure	<u>3,000,000</u>	<u>10,448,060</u>
	<u>\$ 3,248,267</u>	<u>\$ 10,826,352</u>

Net assets of \$136,760 and \$304,333 were released from donor restrictions in fiscal 2022 and 2021, respectively, by incurring expenses in accomplishment of the restrictive purposes. As discussed in Note 10, modification to donor restrictions for the endowment funds were made in fiscal year 2022.

10. 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.

At June 30, 2021, 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 was reinvested and 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.

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.

The Society obtained an addendum to a donor agreement, which authorized the release of accumulated earnings in excess of the original \$3,000,000. During fiscal year 2022, The Board established the Sustaining Endowment Fund to hold and spend these excess funds. The original \$3,000,000, plus the associated accumulated earnings is maintained in the Maintenance Endowment Fund. The amended donor agreement resulted in \$7,258,679 being recharacterized as unrestricted board designated funds. The \$3,000,000 original contribution remains permanently restricted.

The Sustaining Endowment Fund supports programs and services as needed for the future continued growth and charitable causes of the Memphis Zoo. The Maintenance Endowment Fund stipulates that the principal be maintained intact in perpetuity and its earnings be used for annual repairs and maintenance expenditures and program support of the Memphis Zoo.

Spending shall only be for the purposes specified and guided by each Endowment Fund's endowment agreement, the Society's Board and all applicable state and federal regulations pertaining to such disbursement, and any potential restrictions by future donors.

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.

The primary investment objective of the Sustaining Endowment Fund is to provide long term growth of capital sufficient to meet certain current and future spending obligations and to protect the Sustaining Endowment Fund from the long-term effects of inflation. To achieve its investment objectives, the Sustaining Endowment Fund acknowledges that risk tolerance and diversification are overriding guiding principles and that the primary objectives of diversification across uncorrelated asset classes are to enhance long term total return and reducing portfolio volatility.

The primary investment objective of the Maintenance Endowment Fund is to provide its income earnings for annual repairs and maintenance and program support, and the secondary objective is to achieve moderate long term growth of capital. To achieve its investment objectives, The Maintenance Endowment Fund acknowledges that income generation, risk tolerance and diversification are overriding guiding principles for the Maintenance Endowment.

Memphis Zoological Society
Notes to Financial Statements

The following table sets forth by asset class the changes in the Society's endowment for 2022 and 2021.

	<u>Board Designated</u>	<u>Donor Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ 8,585,034	\$ -	\$ 8,585,034
Investment return:			
Investment income, net	213,271	-	213,271
Change in fair value	1,672,887	-	1,672,887
Donations and present value adjustments	<u>3,761</u>	<u>-</u>	<u>3,761</u>
Changes in net assets	1,889,919	-	1,889,919
Less: investment income available for general purposes	(213,271)	-	(213,271)
Add: prior year unspent funds reverted back to board designated	<u>186,378</u>	<u>-</u>	<u>186,378</u>
Endowment net assets, June 30, 2021	10,448,060	-	10,448,060
Modification of donor restrictions	(7,258,679)	7,258,679	-
Investment return:			
Investment income, net	148,949	286,898	435,847
Change in fair value	(464,693)	(1,406,311)	(1,871,004)
Donations and present value adjustments	<u>-</u>	<u>17,397</u>	<u>17,397</u>
Changes in net assets	(315,744)	(1,102,016)	(1,417,760)
Less: investment income available for general purposes	(86,908)	-	(86,908)
Add: prior year unspent funds reverted back to board designated	<u>213,271</u>	<u>-</u>	<u>213,271</u>
Endowment net assets, June 30, 2022	<u>\$ 3,000,000</u>	<u>\$ 6,156,663</u>	<u>\$ 9,156,663</u>

11. 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 \$228,000 and \$229,000 for fiscal 2022 and 2021, respectively. In addition to these matching amounts, the Society recorded a Qualified Non-Elective Contribution ("QNEC") payable of approximately \$253,000 at June 30, 2022, related to corrections in employee deferrals.

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 2022 and 2021. The plan had a fair value of \$68,020 and \$151,227 as of June 30, 2022 and 2021, respectively. This amount is included in both other assets and accrued expenses on the statements of financial position.

12. Related Party Transactions

Zoo capital improvements of \$4,819,847 and \$641,588, as reflected in the statement of functional expenses, were contributed by the Society to the City during fiscal 2022 and 2021, respectively.

The Society leases certain real estate to a member of management under a lease and services agreement. The agreement provides for monthly lease payments in the amount \$2,000, less \$800 consideration for general management and oversight of the property. This agreement can be renewed or terminated by either party on the lease anniversary date.

The Society received management fees from the City in the amount of \$1,200,000 during fiscal 2022 and 2021. 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 \$686,339 and \$351,142 at June 30, 2022 and June 30, 2021, respectively.

13. 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 2022 payment of \$500,000 was remitted to the Chinese Party in August 2022 while the fiscal 2021 payment of \$500,000 was remitted in July 2021. The fiscal 2022 amount was included in accrued expenses at June 30, 2022.

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, 2022. 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, 2022 and 2021. Subsequent to June 30, 2022, management began formalizing a Memorandum of Understanding between the City, Overton Park Conservatory, and the Society, whereby the Society will reimburse the Overton Park Conservatory for \$400,000 paid for improvements to parking on McClean Boulevard, and the City and the Society shall complete all improvements on the main parking lot. The Society will also receive additional land and improvements for their parking from the City’s maintenance areas. The overall cost to the Society under the revised terms is not expected to differ significantly from that in the original agreement.

At June 30, 2022, the Society committed to an animal purchase agreement in the amount of \$300,000.

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 Auditor's 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, TN

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, 2022, 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 31, 2022.

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*.

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.

FORVIS, LLP

Memphis, TN
October 31, 2022

Memphis Zoological Society
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2022

<u>Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Total Expenditures</u>
<u>Federal Awards</u>			
U.S. Department of Agriculture			
United States Forest Service			
Stewardship Agreement			
Kisatchie National Forest -			
Louisiana Pine Snake	n/a	19-SA-11080600-253	\$ 69,044
U.S. Department of Interior			
Endangered Species Conservation	15.657	F20AP11023-01	21,644
Total Federal Awards			\$ 90,688

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the Memphis Zoological Society and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

Financial Statement Findings

Current Year Findings

There were no current year findings reported.

Prior Year Findings

There were no prior year findings reported.