

**DESERT BOTANICAL GARDEN, INC.
AND AFFILIATES**

Consolidated Financial Statements together with
Independent Auditor's Report and
Supplementary Information

September 30, 2018



**DESERT
BOTANICAL**
garden[®]

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Desert Botanical Garden, Inc.

We have audited the accompanying consolidated financial statements of Desert Botanical Garden, Inc. (an Arizona nonprofit organization) and Affiliates (collectively, the "Garden"), which comprise the consolidated statement of financial position as of September 30, 2018 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Garden as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Garden's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 – 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
April 18, 2019

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2018
(with comparative totals as of September 30, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,691,118	\$ 4,522,675
Investments	1,783,842	1,956,776
Contributions receivable, net	561,493	1,746,095
Other current assets	1,815,022	505,883
Total current assets	8,851,475	8,731,429
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	319,300	738,180
PROPERTY AND EQUIPMENT, net	24,185,948	23,332,314
OTHER ASSETS	98,773	98,598
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED		
ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	548,278	125,623
Contributions receivable, net	523,529	-
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	23,167	22,263
Investments	14,167,964	13,665,897
Contributions receivable, net	109,871	371,288
Beneficial interest in remainder trust	288,000	299,000
Cash surrender value of life insurance policies	130,524	111,176
	\$ 49,246,829	\$ 47,495,768
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable - Bank line of credit	\$ 500,000	\$ -
Current portion of long-term debt	20,000	70,000
Accounts payable and accrued liabilities	1,959,341	1,423,344
Deferred revenue	2,038,483	1,771,804
Annuity payment liability	8,550	8,550
Total current liabilities	4,526,374	3,273,698
DEFERRED REVENUE, less current portion	602,609	158,314
ANNUITY PAYMENT LIABILITY, less current portion	61,740	65,450
LONG-TERM DEBT, less current portion	520,000	540,000
OTHER LIABILITIES	19,144	45,467
Total liabilities	5,729,867	4,082,929
NET ASSETS		
Unrestricted		
Designated by the Board of Trustees:		
Huizingh Working Capital Fund	346,035	1,100,000
Asset Replacement Reserve	1,488,550	877,917
Opportunity Reserve	1,071	1,000,000
Opportunity Reserve - DLS	100,010	-
Emergency Reserve	784,947	200,000
Total designated	2,720,613	3,177,917
Nondesignated	21,432,309	19,868,634
Total unrestricted net assets	24,152,922	23,046,551
Temporarily restricted	4,644,514	5,896,664
Permanently restricted	14,719,526	14,469,624
Total net assets	43,516,962	43,412,839
	\$ 49,246,829	\$ 47,495,768

The accompanying notes are an integral part of this consolidated financial statement.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended September 30, 2018
(with comparative totals for the year ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total 2017
SUPPORT AND REVENUE					
Retail sales	\$ 1,363,126	\$ -	\$ -	\$ 1,363,126	\$ 1,346,956
Cost of retail sales	(302,331)	-	-	(302,331)	(311,529)
Gross profit on retail sales	1,060,795	-	-	1,060,795	1,035,427
Beverage sales	620,534	-	-	620,534	730,596
Cost of beverage sales	(83,015)	-	-	(83,015)	(136,905)
Gross profit on beverage sales	537,519	-	-	537,519	593,691
Total gross profit on retail and beverage sales	1,598,314	-	-	1,598,314	1,629,118
Contributions	1,595,555	1,993,646	241,554	3,830,755	5,841,445
Admissions	4,762,735	-	-	4,762,735	3,924,005
Memberships	3,352,783	-	-	3,352,783	3,420,466
Governmental contracts	406,333	-	-	406,333	397,075
Educational classes	319,672	-	-	319,672	255,124
Facility rental and concessions	526,582	-	-	526,582	647,146
Investment income	5,872	615,388	-	621,260	513,846
Net realized and unrealized gain (loss) on investments	-	181,595	-	181,595	1,273,639
Change in value of split interest agreements	(2,072)	-	8,348	6,276	36,946
Gain on disposal of assets	-	-	-	-	9,450
Other revenues and gains	152,307	-	-	152,307	153,441
Total support and revenue before special events and net assets released from restrictions	12,718,081	2,790,629	249,902	15,758,612	18,101,701
Special events revenue	3,045,951	-	-	3,045,951	2,345,922
Less costs of direct donor benefits	(879,378)	-	-	(879,378)	(871,998)
Gross profit on special events	2,166,573	-	-	2,166,573	1,473,924
Total support and revenue	14,884,654	2,790,629	249,902	17,925,185	19,575,625
NET ASSETS RELEASED FROM RESTRICTIONS	4,042,779	(4,042,779)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	18,927,433	(1,252,150)	249,902	17,925,185	19,575,625
EXPENSES					
Program	9,551,434	-	-	9,551,434	9,037,998
Retail, marketing, and visitor services	3,966,536	-	-	3,966,536	3,304,038
Administration	2,358,091	-	-	2,358,091	1,892,135
Fundraising and membership	1,945,001	-	-	1,945,001	2,043,091
Total expenses	17,821,062	-	-	17,821,062	16,277,262
CHANGE IN NET ASSETS	1,106,371	(1,252,150)	249,902	104,123	3,298,363
NET ASSETS - Beginning of year	23,046,551	5,896,664	14,469,624	43,412,839	40,114,476
NET ASSETS - End of year	\$ 24,152,922	\$ 4,644,514	\$ 14,719,526	\$ 43,516,962	\$ 43,412,839

The accompanying notes are an integral part of this consolidated financial statement.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended September 30, 2018
(with comparative totals for the year ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 104,123	\$ 3,298,363
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,584,946	1,468,229
Gain on disposal of assets	-	(9,450)
Contributions restricted for investment in long-lived assets, improvements and endowment	(1,490,203)	(558,860)
Non-cash contribution - Stock	(47,629)	(45,289)
Non-cash contribution - Property and equipment	(13,000)	(86,000)
Change in value of split interest agreements	13,072	(18,102)
Change in cash surrender value of life insurance policies	(19,348)	(18,844)
Net realized and unrealized (gains) losses on investments	(181,595)	(1,273,639)
Change in discount on long-term contributions receivable	(3,608)	(22,947)
(Increase) decrease in		
Other current assets	(1,309,139)	(286,937)
Contributions receivable	1,477,863	(425,255)
Other assets	(175)	(2,698)
Increase (decrease) in		
Accounts payable and accrued liabilities	535,997	(227,073)
Deferred revenue	210,974	(113,924)
Annuity payment liability	(5,782)	10,502
Other liabilities	(26,323)	(53,717)
Net cash provided by operating activities	<u>830,173</u>	<u>1,634,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in cash and cash equivalents restricted for investment in long-lived assets and improvements	(422,655)	395,171
Increase in cash and cash equivalents restricted for endowment	(904)	(20,264)
Purchases of investments restricted to endowment	(502,067)	(3,636,563)
Proceeds from maturities and sales of investments	2,008,460	1,260,523
Purchases of investments	(1,068,058)	(1,389,863)
Proceeds from disposal of property and equipment	-	20,500
Purchases of property and equipment	(1,925,580)	(2,522,131)
Net cash used in investing activities	<u>(1,910,804)</u>	<u>(5,892,627)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in long-lived assets, improvements and endowment	819,074	4,079,923
Borrowings on note payable - Bank line of credit	700,000	-
Payments on note payable - Bank line of credit	(200,000)	-
Payments on long-term debt	(70,000)	(95,000)
Net cash provided by financing activities	<u>1,249,074</u>	<u>3,984,923</u>
Net increase (decrease) in cash and cash equivalents	168,443	(273,345)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>4,522,675</u>	<u>4,796,020</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 4,691,118</u>	<u>\$ 4,522,675</u>

The accompanying notes are an integral part of this consolidated financial statement.

1. Operations and Summary of Significant Accounting Policies

Operations

The Desert Botanical Garden, Inc. ("DBG"), an Arizona nonprofit corporation, was formed in 1937 as an educational and scientific institution devoted to the conservation, display, study and dissemination of knowledge regarding desert plants. Located on 140 acres in Papago Park, Phoenix, Arizona, DBG has more than 50,000 individual plants representing approximately 4,500 taxa (species) from the deserts of the world. Research facilities include a botanical library with over 9,600 books and 500 serial publications on deserts and desert plants, and an herbarium that houses more than 88,000 dried plant specimens collected primarily from Arizona and northern Mexico. Educational programs include classes, field trips, lectures and workshops on desert plants and desert related subjects.

DBG is supported primarily by contributions, memberships from individuals and corporations, research grants, admission fees, educational program fees, special events, and retail sales.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of DBG, Desert Botanical Garden Foundation, and DBG Agave, LLC (collectively, the "Garden").

Desert Botanical Garden Foundation (the "Foundation") is a nonprofit corporation and was incorporated under the laws of the state of Arizona in August 2008. The Foundation was organized for educational and charitable purposes for the benefit of, and to carry out certain purposes of, DBG. The Foundation operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation was inactive for the period from its inception (August 2008) through September 30, 2008. From October 1, 2008 through September 30, 2017, the net amount of cash, investments, split interest agreements and contributions receivable related to the endowment that had been transferred from DBG to the Foundation totaled approximately \$8,436,000. During the year ended September 30, 2018, DBG transferred additional cash related to the endowment, totaling approximately \$16,000, to the Foundation. During the year ended September 30, 2018, the Foundation distributed approximately \$511,000 to DBG as a draw on accumulated investment earnings.

DBG Agave, LLC ("DBG Agave") is an Arizona limited liability company organized by DBG in December 2010. DBG is the sole member of DBG Agave. DBG Agave was created for the purpose of receiving and holding contributed interests in real estate, should DBG receive any such contributions in the future. DBG Agave has been inactive from inception (December 2010) through September 30, 2018, and had no assets or liabilities as of September 30, 2018.

Intercompany balances and transactions, which relate primarily to DBG's beneficial interest in the net assets of the Foundation, are eliminated in the consolidation.

Basis of Presentation

The Garden reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At September 30, 2018, the Board of Trustees has designated various amounts of unrestricted net assets for specific purposes as reflected in the accompanying consolidated statement of financial position.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have maturities of ninety days or less when purchased. At times, cash and cash equivalent balances may exceed federally insured amounts. The Garden believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Garden does not require collateral for accounts receivable. Past due status is determined based upon invoice due date. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At September 30, 2018, accounts receivable are considered by management to be collectible in full; accordingly, an allowance for doubtful accounts has not been provided. Accounts receivable totaled approximately \$195,000 at September 30, 2018, and are included in "Other current assets" in the accompanying consolidated statement of financial position.

Contributions Receivable

The Garden's contributions receivable consist primarily of bequests receivable and promises to give from individuals, employees and members of the Board of Trustees. Credit risk is limited due to the receipt of prior contributions from many of the individuals and their standing in the community, as well as the Garden's relationship with employees and members of the Board of Trustees.

Bequests Receivable

Bequests receivable are recognized in the period that the Garden receives notification that it is a beneficiary under a court-validated will or irrevocable agreement, the trustee or estate representative has provided information regarding the nature and value of the estate assets and liabilities, and any conditions have been substantially met. Bequests receivable are stated at the estimated net amount the Garden expects to receive, based upon the estimated fair value of the estate (net of potential fees and expenses) and the Garden's percentage interest as a beneficiary. Future actual bequest collections typically differ from estimates.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or decreases of expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in "Contributions" in the accompanying consolidated statement of activities. Conditional promises to give are not included as support until the conditions are substantially met.

Inventories

Inventories are stated at the lower of cost or net realizable value using the average cost method and consist primarily of liquor for events. Inventories totaled approximately \$48,000 at September 30, 2018, and are included in "Other current assets" in the accompanying consolidated statement of financial position.

Investments

The Garden reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value. The fair values of investments are based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying consolidated financial statements. In accordance with the investment policies of the Garden, proceeds from investments which have matured are placed in a money market account until they are re-invested.

Fair Value Measurements

Certain assets and liabilities of the Garden are required to be measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an “exit price”) on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). The levels of the fair value hierarchy are:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Joint Venture

The Garden owns a 25% interest in Flora & Fauna, LLC (“F&F, LLC”), a joint venture created in May 2008 to facilitate the sale of real estate in circumstances where donors contribute real estate jointly to the Garden and other nonprofit organizations. The Garden does not retain control of F&F, LLC; however, the Garden’s ownership interest creates both the ability to exercise significant influence over F&F, LLC and an ongoing economic interest in the net assets of F&F, LLC. Accordingly, the Garden reports its interest in the net assets of F&F, LLC, as well as any changes in the net assets of F&F, LLC, in a manner similar to the equity method of accounting for investments in common stock. During the year ended September 30, 2018, F&F, LLC had no activity and as of September 30, 2018, F&F, LLC had no assets or liabilities.

Property and Equipment

Property and equipment are recorded at cost when purchased or fair value as of the date contributed. All acquisitions of property and equipment in excess of \$10,000 and all expenditures for repairs and maintenance that materially prolong the useful lives of assets are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	10 - 50 years
Ground installations	5 - 30 years
Office furniture, fixtures and equipment	7 years
Computer equipment and technology	3 - 5 years
Machinery and equipment	2 - 20 years
Master plan for buildings and exhibits	10 years
Vehicles	5 - 10 years

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Garden reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Garden reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Life Insurance Policies

The Garden is the beneficiary of several donated life insurance policies with face values totaling \$1,025,000 which are restricted for the Garden's endowment. The cash surrender values of these policies totaled approximately \$131,000 as of September 30, 2018. The Garden is also the beneficiary of a donated life insurance policy with a face value of \$50,000 which is restricted to The Saguaro Initiative campaign. The cash surrender value of this policy totaled approximately \$25,000 at September 30, 2018 and has been included in "Other assets" in the accompanying consolidated statement of financial position.

Changes in the value of these life insurance policies are included in "Change in value of split interest agreements" in the accompanying consolidated statement of activities for the year ended September 30, 2018.

Impairment of Long-Lived Assets

The Garden reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Deferred Revenue

Deferred revenue consists primarily of unearned membership revenues and cash collected for certain events and classes that will take place in the next fiscal year.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018

Contributions

The Garden accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same year the contribution is received, the Garden reports the support as unrestricted.

Revenue Recognition

The Garden records admissions revenue, which consists of ticket sales, as tickets are sold. Retail sales consist of revenue earned from third-party operations of the restaurant and gift shop, semi-annual plant sales, beverage sales, and other fees. Retail revenue is recognized when goods are sold or services are provided. Membership revenue is recorded as unearned membership income and is recognized as revenue ratably over the term of the membership.

Donated Materials and Services

The Garden recognizes donations of materials at their estimated fair value on the date received. The Garden recognizes donations of services received at their estimated fair value if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated.

In-kind contributions consisted of the following for the year ended September 30, 2018:

	Contributed Services	Supplies	Advertising	Total
Direct donor benefit Program	\$ 186,073	\$ -	\$ -	\$ 186,073
Retail, marketing, and visitor services	410,700	61,909	-	472,609
Administration	41,650	8,378	33,739	83,767
Fundraising and membership	2,590	-	-	2,590
	<u>-</u>	<u>21,588</u>	<u>-</u>	<u>21,588</u>
Total in-kind expense	<u>\$ 641,013</u>	<u>\$ 91,875</u>	<u>\$ 33,739</u>	766,627
Capitalized property and equipment				<u>13,000</u>
Total in-kind contributions				<u>\$ 779,627</u>

Contributed services above include approximately \$385,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets. In addition, a substantial number of other volunteers have donated significant amounts of their time to the Garden. However, no amounts have been reflected in the accompanying consolidated financial statements for these other volunteer services because they did not qualify for recording under current accounting requirements.

Special Events Revenue

The Garden conducts special events in which a portion of the amount paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Garden. The direct costs of the special events, which ultimately benefit the donor rather than the Garden, are recorded as costs of direct donor benefits.

Proceeds from special events are recognized as revenue when the event occurs. All proceeds received in excess of the direct costs are reported as gross profit on special events in the accompanying consolidated statement of activities. Direct costs incurred prior to the events are recorded as prepaid expenses in the accompanying consolidated statement of financial position until the event occurs, at which time they are recognized as special events costs.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited. Administration expense includes those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Garden.

Membership development expenses totaled approximately \$617,000 for the year ended September 30, 2018, and have been included in "Fundraising and membership expense" in the accompanying consolidated statement of activities.

Advertising

The Garden uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense totaled approximately \$269,000 (including in-kind advertising described above of approximately \$34,000) for the year ended September 30, 2018, and has been included in "Retail, marketing, and visitor services expense" in the accompanying consolidated statement of activities.

Income Taxes

The Garden is a nonprofit corporation exempt from both federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and similar state provisions. In addition, the Garden qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income would be taxed.

The Garden files information returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of September 30, 2018, U.S. federal information returns for years ended prior to September 30, 2015 and state returns for years ended prior to September 30, 2014 were closed to assessment. Interest and penalties, if any, are accrued as a component of administration expenses when assessed.

The Garden follows the guidance issued by the Financial Accounting Standards Board ("FASB") related to accounting for income tax uncertainties. Under this guidance, the Garden accounts for the effect of any uncertain tax positions based on whether it is "more-likely-than-not" that the position will be sustained by the taxing authority upon examination. The Garden routinely evaluates potential uncertain tax positions. The Garden has identified its status as an exempt organization as a tax position; however, the Garden has determined that such tax position does not result in an uncertainty that requires recognition.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for nonpublic entities for fiscal years beginning after December 15, 2018. The Garden is currently evaluating the magnitude and other potential impacts on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases in their statement of financial position as liabilities, with corresponding “right of use” assets. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Garden is currently evaluating the magnitude and other potential impacts on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will improve the information provided in financial statements and accompanying notes for not-for-profit entities. The amendments in ASU 2016-14 revise the net asset classifications from three net asset classes (unrestricted, temporarily restricted and permanently restricted) to two net asset classes (net assets with donor restrictions and net assets without donor restrictions). ASU 2016-14 also requires enhanced disclosures related to investments, financial liquidity, financial performance, cash flows, and allocation of expenses. The standard is effective for not-for-profit entities for fiscal years beginning after December 15, 2017. The Garden is currently evaluating the magnitude and other potential impacts on its consolidated financial statements.

In March 2019, FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. ASU 2019-03 modifies the definition of the term “collections”, updates certain criteria related to accounting for collections, and requires additional disclosures regarding policies related to an entity’s collections. ASU 2019-03 is effective for fiscal years beginning after December 15, 2019. The Garden is currently evaluating the magnitude and other potential impacts on its consolidated financial statements.

Prior Year Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Garden's consolidated financial statements for the year ended September 30, 2017, from which the summarized information was derived.

2. Estimates

The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

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3. Contributions Receivable

Contributions receivable consisted of the following at September 30, 2018:

Promises to give - Purpose restrictions	
Capital projects	\$ 523,529
The Saguaro Initiative - Undesignated	408,674
Endowment	133,583
Promises to give - Unrestricted	330,464
Bequests - Unrestricted	<u>170,000</u>
Total contributions receivable	1,566,250
Less: Unamortized discount	<u>(52,057)</u>
Contributions receivable, net	<u>\$ 1,514,193</u>

The estimated cash flows for contributions receivable were discounted over the collection period using management determined, risk-adjusted discount rates, which ranged from 1.4% to 6.3%. Contributions receivable (before the unamortized discount and any valuation allowance) are due as follows at September 30, 2018:

Contributions receivable due in less than one year	\$ 1,093,769
Contributions receivable due in one to five years	362,481
Contributions receivable due thereafter	<u>110,000</u>
Total contributions receivable	<u>\$ 1,566,250</u>

Contributions receivable from employees and members of the Board of Trustees (before the unamortized discount) were as follows at September 30, 2018:

Contributions receivable due in less than one year	\$ 91,775
Contributions receivable due in one to five years	<u>83,057</u>
Total contributions receivable due from employees and members of the Board of Trustees	<u>\$ 174,832</u>

4. Investments and Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Garden believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

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Investments

Investments consist of corporate stocks, mutual funds, and commodities and are valued at quoted market prices for identical assets.

Hedge Funds

The hedge fund investment is a multi-fund pool commonly referred to as a "fund of funds" incorporating between 10 and 20 hedge funds in each multi-fund pool. For the most part, hedge funds invest in marketable securities that trade in well-established and highly-liquid markets (stocks, bonds, futures, options, etc.). Most of the underlying hedge funds use independent fund administrators who obtain position prices from independent pricing services. These prices are often confirmed by prime brokers or custodians who are in possession of the actual securities.

The "fund of funds" hedge fund vehicles are priced monthly by BNY Mellon Alternative Investment Services ("BNY AIS"), one of the largest independent fund administrators in the world. BNY AIS compiles the prices from each underlying hedge fund administrator to determine the monthly valuation for each multi-fund pool. Upon completion of the fund valuation, BNY AIS then computes the monthly individual investor valuations based upon their ownership share of each pool and provides this information to each investor's custodian.

Split Interest Agreement

The Garden has a beneficial interest in a remainder trust. The trust's assets include primarily corporate stocks, mutual funds and government bonds. Under the trust agreement, other beneficiaries retain the right to receive quarterly distributions over the term of the trust (the lifetime of such beneficiaries). Upon the death of these beneficiaries, the remaining trust assets are to be distributed to the Garden, subject to a donor restriction that the amounts be invested in perpetuity as part of the Garden's endowment.

The Garden's beneficial interest in a remainder trust is initially measured based upon the present value of the estimated future cash flows and is subsequently adjusted for changes in present value or actuarial assumptions during the term of the trust. Such adjustments represented a decrease of approximately \$11,000 for the year ended September 30, 2018, and are included in "Change in value of split interest agreements" in the accompanying consolidated statement of activities.

Fair Value Levels

The following table sets forth, by level within the fair value hierarchy, the Garden's assets that are measured at fair value as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic corporate stocks	\$ 1,641	\$ -	\$ -	\$ 1,641
Mutual funds - Equity				
Domestic	6,292,060	-	-	6,292,060
International	3,782,437	-	-	3,782,437
Mutual funds - Bonds	3,960,945	-	-	3,960,945
Commodity funds	866,338	-	-	866,338
Hedge funds	-	-	1,048,385	1,048,385
Split interest agreements	-	288,000	-	288,000
Total	<u>\$ 14,903,421</u>	<u>\$ 288,000</u>	<u>\$ 1,048,385</u>	<u>\$ 16,239,806</u>

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The assets above are included in the following line items in the accompanying consolidated statement of financial position at September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current investments	\$ 1,783,842	\$ -	\$ -	\$ 1,783,842
Assets restricted for endowment				
Investments	13,119,579	-	1,048,385	14,167,964
Beneficial interest in remainder trust	-	288,000	-	288,000
Total	<u>\$ 14,903,421</u>	<u>\$ 288,000</u>	<u>\$ 1,048,385</u>	<u>\$ 16,239,806</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs during the year ended September 30, 2018:

Level 3 beginning balance - September 30, 2017	\$ 1,020,427
Net realized and unrealized gains	<u>27,958</u>
Level 3 ending balance - September 30, 2018	<u>\$ 1,048,385</u>

Net realized and unrealized gains and losses on the hedge fund have been included in "Net realized and unrealized gain / (loss) on investments" in the accompanying consolidated statement of activities.

5. Property and Equipment

Property and equipment have been acquired since the Garden began operations in 1937. Property and equipment acquired in earlier years, where information concerning purchase cost was not generally available, have been recorded at amounts established for insurance purposes in 1980. Property and equipment acquired since 1980 have been recorded at purchased cost or, if contributed, at fair value on the date of gift. In 1980, accumulated depreciation was established by calculating depreciation retroactive from asset acquisition dates to 1980. Property and equipment lives were determined based on the period from acquisition to 1980, plus their remaining estimated useful lives based on the current condition and planned use of the property and equipment. Subsequent acquisitions of property and equipment are recorded at cost or estimated fair value at the date of gift. Property and equipment consisted of the following at September 30, 2018:

Buildings and building improvements	\$ 18,546,713
Ground installations	18,057,405
Computer equipment and technology	2,871,753
Office furniture, fixtures and equipment	1,688,793
Master plan for buildings and exhibits	895,214
Machinery and equipment	890,540
Vehicles	133,464
Construction-in-progress	<u>2,378,578</u>
Total property and equipment	45,462,460
Less - Accumulated depreciation	<u>(21,276,512)</u>
Property and equipment, net	<u>\$ 24,185,948</u>

Depreciation expense was approximately \$1,585,000 for the year ended September 30, 2018.

6. Collections

Collections include the Garden's library and living plant collection, which are on display for the general public. These collection items are not capitalized by the Garden. The Garden's library consists of over 500 botanical periodicals and over 9,600 rare books, including floristic, ecological and horticultural works that relate to the deserts of the world. The library also includes materials on botanical illustration, plant taxonomy and nomenclature, edible and useful plants, rare and endangered plants, and desert ecology and conservation.

The living plant collection consists of plants that are rare and difficult to replace. The Garden employs horticulturists to ensure that the collection items are preserved and protected. Based on an independent study conducted in 2005 by an advisor from Arizona State University, a value of \$20 was estimated for each unprocessed herbarium specimen and a value of \$35 was estimated for each processed herbarium specimen. Adjusting these amounts in 2018 for the annual Consumer Price Index ("CPI"), the Garden estimates that the value of each unprocessed specimen is approximately \$26 and the processed specimen value is approximately \$44, for an estimated total of herbarium specimens of approximately \$4,100,000. In conformity with the practice followed by many gardens, specimens contributed to the Garden are not included in the accompanying consolidated financial statements.

Costs of purchasing collection items are included as a change in unrestricted net assets in "Program expense" in the accompanying consolidated statement of activities. During the year ended September 30, 2018, purchased acquisitions and de-accessions of collection items were not significant.

7. Charitable Gift Annuities

The Garden is party to several charitable gift annuities. Under these agreements, the Garden has received a total of \$155,000. The agreements provide for payments to the donors over the term of the agreement (the donors' expected lifetimes) which total approximately \$2,000 each quarter. The fair value of the assets received by the Garden was recorded as a temporarily or permanently restricted contributions at the inception of the agreement, based upon restrictions specified by the donors. At the inception of each agreement, a liability was recorded for the present value of the estimated annuity amounts payable to the beneficiaries over the expected term of the agreement using discount rates ranging from 2.2% to 5.6%.

The annuity liability balances are reduced by payments to the beneficiaries. Adjustments to the value of the annuity liabilities related to changes in present value or actuarial assumptions during the term of the gift annuity agreements are recognized as changes in the value of split interest agreements in the consolidated statement of activities. The net change in the value of the gift annuity liabilities for the year ended September 30, 2018 (not including cash payments to beneficiaries) was an increase of approximately \$2,000.

8. Note Payable – Bank Line of Credit

DBG has a line of credit with a bank. Maximum borrowings available under the line of credit total \$1,500,000. Advances under this line of credit bear interest, payable monthly, at the 1-month LIBOR (2.15% at September 30, 2018) plus 3%, and are collateralized by substantially all the assets of DBG. The line of credit was scheduled to mature in March 2019. In March 2019, DBG and the bank executed an agreement to extend the maturity date to June 2019.

The line of credit agreement includes certain financial covenants, including maintenance of a minimum ratio of unrestricted cash and investment balances to funded debt and a requirement to meet a minimum threshold for changes in unrestricted net assets. The line of credit agreement also includes certain nonfinancial covenants, including timely submission of audited financial statements.

9. Long-term Debt

Note Payable – Community Foundation

DBG had a \$350,000 note payable agreement with a nonprofit community foundation to finance certain capital projects. The note was unsecured and bore interest, payable quarterly, at 3.5% per annum. The note required annual principal installments of \$75,000 beginning June 30, 2014, and continuing annually through June 30, 2018, at which time the outstanding principal and accrued interest was due. The note was subordinate to the bank line of credit (Note 8) and was paid in full during the year ended September 30, 2018.

Bank Term Note Payable

DBG has a term note payable with a bank which bears interest at the 1-month LIBOR (2.24% at September 30, 2018) plus 3.00%. The note requires monthly interest-only payments through maturity. In addition, the note requires an annual principal payment each June of \$20,000. Any outstanding principal is due at maturity in September 2020 with a balloon payment estimated at approximately \$500,000. The note is collateralized by substantially all the assets of DBG.

The bank term note payable is subject to the same financial and nonfinancial covenants as the bank line of credit (Note 8).

Future Principal Payments on Long-Term Debt

Annual principal payments on long-term debt for the years subsequent to September 30, 2018 are scheduled as follows:

<u>Year Ending</u> <u>September 30</u>	
2019	\$ 20,000
2020	<u>520,000</u>
Total note payable	540,000
Less - Current portion	<u>(20,000)</u>
Total long-term debt, less current portion	<u><u>\$ 520,000</u></u>

10. Temporarily Restricted Net Assets

Temporarily restricted net asset activity for the year ended September 30, 2018 was as follows:

	Balance 09/30/17	Contributions	Releases	Balance 09/30/18
Purpose restrictions				
The Saguaro Initiative - Undesignated	\$ 2,038,016	\$ 137,226	\$ (1,759,305)	\$ 415,937
Desert Conservation Lab / Center for Plant Science	-	1,205,447	(237,966)	967,481
Community engagement	997,397	248,867	(792,733)	453,531
Education programs	263,082	119,600	(164,229)	218,453
Research	280,703	38,490	(121,675)	197,518
Other Garden exhibits / improvements	83,899	43,102	(64,499)	62,502
Other purpose restrictions	121,504	200,914	(282,400)	40,018
Time restrictions				
Earnings on endowment	2,112,063	796,983	(619,972)	2,289,074
Total	<u>\$ 5,896,664</u>	<u>\$ 2,790,629</u>	<u>\$ (4,042,779)</u>	<u>\$ 4,644,514</u>

11. Permanently Restricted Net Assets

Permanently restricted net assets are to provide a permanent endowment with investment income available for the operating expenses of the Garden. Investment income and gains or losses on the investment of endowment assets are reported as increases or decreases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use. The Garden's endowment consists of funds established for the future prosperity of the Garden. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona enacted a version of the Uniform Prudent Management of Institutional Funds Act ("SPMIFA") in June 2008. The Board of Directors of the Foundation has interpreted 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. As a result of this interpretation, the Garden classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Garden in a manner consistent with the standard of prudence prescribed by SPMIFA.

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In accordance with SPMIFA, the Garden considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Garden and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Garden
- The investment policies of the Garden

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. The Garden's annual appropriations are at the discretion of the Foundation's Board of Directors unless specific instructions were provided by the endowment donors.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. As of September 30, 2018, the Garden had sufficient funds allocated to the endowment.

Changes in endowment net assets for the year ended September 30, 2018 were as follows:

	Temporarily Restricted	Permanently Restricted		Total
		Invested Assets	Contributions Receivable, Split Interest Agreements, and Other	
Endowment net assets, beginning of year	\$ 2,112,063	\$ 13,688,160	\$ 781,464	\$ 16,581,687
Investment income	615,388	-	-	615,388
Net realized and unrealized gains/(losses)	181,595	-	-	181,595
New contributions	-	241,617	-	241,617
Change in allowance and discount	-	-	(63)	(63)
Payments on endowment contributions receivable	-	261,354	(261,354)	-
Change in value of split interest agreements	-	-	8,348	8,348
Appropriations for expenditure	<u>(619,972)</u>	<u>-</u>	<u>-</u>	<u>(619,972)</u>
Endowment net assets, end of year	<u>\$ 2,289,074</u>	<u>\$ 14,191,131</u>	<u>\$ 528,395</u>	<u>\$ 17,008,600</u>

12. Commitments

Operating Leases

The Garden leases the land on which the garden is located from the City of Phoenix for one dollar per year. The agreement stipulates that the Garden will pay \$1 per year as rent for the property. The unique nature and location of the leased property make it impossible to determine the fair value of the donated use of this property. Accordingly, no amounts have been recorded in the accompanying consolidated financial statements for the excess of the fair value of the donated use of property over annual lease payments. The lease provides for automatic renewals for terms of five years each. The current lease term expires in June 2022.

The Garden also leases various other equipment with terms expiring through April 2023. Monthly payments on these leases total approximately \$15,000. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Cash payments received from lessors (“lease incentives”) are recognized on a straight-line basis over the term of the related lease, which expires in May 2020. At September 30, 2018, the current and long-term portions of the liability for unrecognized lease incentives totaled approximately \$29,000 and \$19,000, respectively, and are included in “Accounts payable and accrued liabilities” and “Other liabilities”, respectively, in the accompanying consolidated statement of financial position at September 30, 2018.

The future minimum lease payments required under these non-cancelable operating leases are as follows:

<u>Year Ending</u> <u>September 30</u>	
2019	\$ 189,017
2020	189,407
2021	186,899
2022	144,143
2023	<u>75,184</u>
Total minimum future rental payments	<u><u>\$ 784,650</u></u>

Lease expense for the year ended September 30, 2018 (net of amortized lease incentives totaling approximately \$29,000) was approximately \$158,000.

Gift Shop Expansion

During the year ended September 30, 2018, the Garden entered into an agreement with the third party vendor that operates the Garden’s gift shop. The terms of the agreement provided for the expansion of the gift shop premises at a cost of approximately \$500,000, initially funded by the third party vendor and subject to repayment by the Garden should the Garden terminate the agreement (other than as a result of default by the third party vendor) prior to September 2029. The amount subject to potential repayment under this agreement is determined on a straight-line basis over the ten year term of the agreement. At September 30, 2018, the amount subject to potential repayment totaled approximately \$500,000 and has been included in deferred revenue in the accompanying consolidated statement of financial position at September 30, 2018.

Other

On November 28, 1988, the Garden signed agreements with the City of Phoenix whereby \$1,000,000 was received for the repair and refurbishment of the Webster Auditorium complex and related projects such as a new parking lot and improvements to water and sewage systems. The refurbishment of the auditorium and the other related construction projects were completed during 1990. In consideration of the amount received, the Garden committed to provide certain landscape consulting services to the City of Phoenix for a period of thirty-five years.

13. Employee Benefit Plans

The Garden has a 401(k) profit sharing plan (the "Plan"), which covers substantially all employees after specified periods of service and eligibility requirements have been met. The Garden's contributions are based upon a fixed percentage of the employee's base pay. Contribution percentages are established in the Plan documents and are determined annually by the Garden's Board of Trustees. The Garden's contributions were approximately \$303,000 for the year ended September 30, 2018.

The Garden also has 457(f) non-qualified deferred compensation retirement plans (the "Non-Qualified 457(f) Plans") covering the current Executive Director and another member of senior management. The Non-Qualified 457(f) Plans provide for employer contributions at the discretion of the Board of Trustees of the Garden. Contributions by the Garden to the Non-Qualified 457(f) Plans totaled approximately \$70,000 during the year ended September 30, 2018. Distributions from the Non-Qualified 457(f) Plans during the year ended September 30, 2018, totaled approximately \$124,000. As of September 30, 2018, approximately \$175,000 has been accrued and included in "Accounts payable and accrued liabilities" in the accompanying consolidated statement of financial position, representing the Garden's accumulated undistributed contributions to the Non-Qualified 457(f) Plans. While the Garden has set aside approximately \$195,000 in separate accounts (representing accumulated contributions by the Garden, plus earnings thereon), these funds remain available to the general creditors of the Garden.

The Garden also has a 457(b) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering the current Executive Director and another member of senior management. The Non-Qualified 457(b) Plan provides for employee contributions. An employee is 100% vested in any elective contributions to the Non-Qualified 457(b) Plan, plus any investment earnings or losses. While the Garden has set aside approximately \$134,000 in a separate account (representing accumulated participant contributions, plus earnings thereon), these funds remain available to the general creditors of the Garden.

14. Cash Flow Information

Supplemental Disclosure of Cash Flow Information

Cash paid for interest totaled approximately \$36,000 for the year ended September 30, 2018.

Schedule of Non-cash Investing and Financing Activities

During the year ended September 30, 2018, certain individuals transferred shares of stock to the Garden in lieu of making cash payments on their outstanding contributions receivable balances. The transfers were recorded at the fair value of the stocks on the date of the transfers and totaled approximately \$362,000.

As described in Note 12 above, during the year ended September 30, 2018, the Garden recorded a non-cash acquisition of property totaling approximately \$500,000 and a corresponding equivalent non-cash increase in deferred revenue in connection with an agreement with the third party operator of the Garden's gift shop.

15. Concentrations

Support and Revenue

During the year ended September 30, 2018, the Garden received contributions from a donor that represented approximately 29% of total contributions for the year. In addition, at September 30, 2018, the Garden had outstanding contributions receivable from two donors who represented approximately 34% and approximately 13%, respectively, of outstanding contributions receivable.

Uninsured Cash

Cash deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investors Protection Corporation (SIPC) are exposed to loss in the event of nonperformance by the financial institution. At times during the year, the Garden had cash in bank deposit accounts and money market accounts in excess of the FDIC and SIPC insurance coverage. The Garden does not anticipate nonperformance by financial institutions. At September 30, 2018, the Garden's uninsured cash balances totaled approximately \$4,399,000.

16. Contingencies

From time to time, the Garden is involved in legal proceedings which are defended and handled in the ordinary course of business. Management believes that the results of these legal proceedings will not have a material adverse effect on the Garden's financial condition.

17. Subsequent Events

Management has evaluated subsequent events through April 18, 2019, the date that the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 1 – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2018

	DBG	Foundation	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,841,762	\$ 849,356	\$ -	\$ 4,691,118
Investments	131,907	1,651,935	-	1,783,842
Contributions receivable, net	561,493	-	-	561,493
Other current assets	1,815,022	-	-	1,815,022
Total current assets	6,350,184	2,501,291	-	8,851,475
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	319,300	-	-	319,300
PROPERTY AND EQUIPMENT, net	24,185,948	-	-	24,185,948
OTHER ASSETS	98,773	-	-	98,773
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	17,132,693	-	(17,132,693)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	548,278	-	-	548,278
Contributions receivable, net	523,529	-	-	523,529
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	23,167	-	-	23,167
Investments	-	14,167,964	-	14,167,964
Contributions receivable, net	21,857	88,014	-	109,871
Beneficial interest in remainder trust	-	288,000	-	288,000
Cash surrender value of life insurance policies	-	130,524	-	130,524
	<u>\$ 49,203,729</u>	<u>\$ 17,175,793</u>	<u>\$ (17,132,693)</u>	<u>\$ 49,246,829</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Note payable - Bank line of credit	\$ 500,000	\$ -	\$ -	\$ 500,000
Current portion of long-term debt	20,000	-	-	20,000
Accounts payable and accrued liabilities	1,959,341	-	-	1,959,341
Deferred revenue	2,038,483	-	-	2,038,483
Annuity payment liability	2,950	5,600	-	8,550
Total current liabilities	4,520,774	5,600	-	4,526,374
DEFERRED REVENUE, less current portion	602,609	-	-	602,609
ANNUITY PAYMENT LIABILITY, less current portion	24,240	37,500	-	61,740
LONG-TERM DEBT, less current portion	520,000	-	-	520,000
OTHER LIABILITIES	19,144	-	-	19,144
Total liabilities	5,686,767	43,100	-	5,729,867
NET ASSETS				
Unrestricted				
Designated by the Board of Trustees:				
Huizingh Working Capital Fund	346,035	-	-	346,035
Asset Replacement Reserve	1,488,550	-	-	1,488,550
Opportunity Reserve	1,071	-	-	1,071
Opportunity Reserve - DLS	100,010	-	-	100,010
Emergency Reserve	784,947	-	-	784,947
Total designated	2,720,613	-	-	2,720,613
Nondesignated	21,432,309	169,117	(169,117)	21,432,309
Total unrestricted net assets	24,152,922	169,117	(169,117)	24,152,922
Temporarily restricted	4,644,514	2,289,074	(2,289,074)	4,644,514
Permanently restricted	14,719,526	14,674,502	(14,674,502)	14,719,526
Total net assets	43,516,962	17,132,693	(17,132,693)	43,516,962
	<u>\$ 49,203,729</u>	<u>\$ 17,175,793</u>	<u>\$ (17,132,693)</u>	<u>\$ 49,246,829</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 2 – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2017

	DBG	Foundation	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,876,682	\$ 645,993	\$ -	\$ 4,522,675
Investments	272,039	1,684,737	-	1,956,776
Contributions receivable, net	1,746,095	-	-	1,746,095
Other current assets	505,883	-	-	505,883
Intercompany receivable / (payable)	3,750	(3,750)	-	-
Total current assets	6,404,449	2,326,980	-	8,731,429
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	738,180	-	-	738,180
PROPERTY AND EQUIPMENT, net	23,332,314	-	-	23,332,314
OTHER ASSETS	98,598	-	-	98,598
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	16,690,204	-	(16,690,204)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	125,623	-	-	125,623
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	22,263	-	-	22,263
Investments	-	13,665,897	-	13,665,897
Contributions receivable, net	38,337	332,951	-	371,288
Beneficial interest in remainder trust	-	299,000	-	299,000
Cash surrender value of life insurance policies	-	111,176	-	111,176
	<u>\$ 47,449,968</u>	<u>\$ 16,736,004</u>	<u>\$ (16,690,204)</u>	<u>\$ 47,495,768</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Note payable - Bank line of credit	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	70,000	-	-	70,000
Accounts payable and accrued liabilities	1,423,344	-	-	1,423,344
Deferred revenue	1,771,804	-	-	1,771,804
Annuity payment liability	2,950	5,600	-	8,550
Total current liabilities	3,268,098	5,600	-	3,273,698
DEFERRED REVENUE, less current portion	158,314	-	-	158,314
ANNUITY PAYMENT LIABILITY, less current portion	25,250	40,200	-	65,450
LONG-TERM DEBT, less current portion	540,000	-	-	540,000
OTHER LIABILITIES	45,467	-	-	45,467
Total liabilities	4,037,129	45,800	-	4,082,929
NET ASSETS				
Unrestricted				
Designated by the Board of Trustees:				
Huizingh Working Capital Fund	1,100,000	-	-	1,100,000
Asset Replacement Reserve	877,917	-	-	877,917
Opportunity Reserve	1,000,000	-	-	1,000,000
Emergency Reserve	200,000	-	-	200,000
Total designated	3,177,917	-	-	3,177,917
Nondesignated	19,868,634	169,117	(169,117)	19,868,634
Total unrestricted net assets	23,046,551	169,117	(169,117)	23,046,551
Temporarily restricted	5,896,664	2,112,063	(2,112,063)	5,896,664
Permanently restricted	14,469,624	14,409,024	(14,409,024)	14,469,624
Total net assets	43,412,839	16,690,204	(16,690,204)	43,412,839
	<u>\$ 47,449,968</u>	<u>\$ 16,736,004</u>	<u>\$ (16,690,204)</u>	<u>\$ 47,495,768</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 3 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES
For the year ended September 30, 2018

	DBG	DBG Foundation	Eliminations	Consolidated
SUPPORT AND REVENUE				
Retail sales	\$ 1,363,126	\$ -	\$ -	\$ 1,363,126
Cost of retail sales	(302,331)	-	-	(302,331)
Gross profit on retail sales	1,060,795	-	-	1,060,795
Beverage sales	620,534	-	-	620,534
Cost of beverage sales	(83,015)	-	-	(83,015)
Gross profit on beverage sales	537,519	-	-	537,519
Total gross profit on retail and beverage sales	1,598,314	-	-	1,598,314
Contributions	3,589,138	241,617	-	3,830,755
Admissions	4,762,735	-	-	4,762,735
Memberships	3,352,783	-	-	3,352,783
Governmental contracts	406,333	-	-	406,333
Educational classes	319,672	-	-	319,672
Facility rental and concessions	526,582	-	-	526,582
Investment income	5,872	615,388	-	621,260
Net realized and unrealized gain on investments	-	181,595	-	181,595
Change in value of split interest agreements	828	5,448	-	6,276
Change in beneficial interest in net assets of DBG Foundation	937,976	-	(937,976)	-
Other revenues and gains	152,307	-	-	152,307
Total support and revenue before special events	15,652,540	1,044,048	(937,976)	15,758,612
Special events revenue	3,045,951	-	-	3,045,951
Less costs of direct donor benefits	(879,378)	-	-	(879,378)
Gross profit on special events	2,166,573	-	-	2,166,573
Total support and revenue	17,819,113	1,044,048	(937,976)	17,925,185
EXPENSES				
Program	9,551,434	-	-	9,551,434
Retail, marketing, and visitor services	3,966,536	-	-	3,966,536
Administration	2,252,019	106,072	-	2,358,091
Fundraising and membership	1,945,001	-	-	1,945,001
Total expenses	17,714,990	106,072	-	17,821,062
CHANGE IN NET ASSETS	104,123	937,976	(937,976)	104,123
NET ASSETS - Beginning of year	43,412,839	16,690,204	(16,690,204)	43,412,839
Transfer of assets from DBG Foundation to DBG	-	(511,000)	511,000	-
NET ASSETS - End of year	\$ 43,516,962	\$ 17,132,693	\$ (17,132,693)	\$ 43,516,962

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 4 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES
For the year ended September 30, 2017

	DBG	DBG Foundation	Eliminations	Consolidated
SUPPORT AND REVENUE				
Retail sales	\$ 1,346,956	\$ -	\$ -	\$ 1,346,956
Cost of retail sales	(311,529)	-	-	(311,529)
Gross profit on retail sales	1,035,427	-	-	1,035,427
Beverage sales	730,596	-	-	730,596
Cost of beverage sales	(136,905)	-	-	(136,905)
Gross profit on beverage sales	593,691	-	-	593,691
Total gross profit on retail and beverage sales	1,629,118	-	-	1,629,118
Contributions	5,840,945	500	-	5,841,445
Admissions	3,924,005	-	-	3,924,005
Memberships	3,420,466	-	-	3,420,466
Governmental contracts	397,075	-	-	397,075
Educational classes	255,124	-	-	255,124
Facility rental and concessions	647,146	-	-	647,146
Investment income	-	513,846	-	513,846
Net realized and unrealized gain on investments	3,549	1,270,090	-	1,273,639
Change in value of split interest agreements	2,102	34,844	-	36,946
Change in beneficial interest in net assets of DBG Foundation	1,724,838	-	(1,724,838)	-
Gain on disposal of assets	9,450	-	-	9,450
Other revenues and gains	153,441	-	-	153,441
Total support and revenue before special events	18,007,259	1,819,280	(1,724,838)	18,101,701
Special events revenue	2,345,922	-	-	2,345,922
Less costs of direct donor benefits	(871,998)	-	-	(871,998)
Gross profit on special events	1,473,924	-	-	1,473,924
Total support and revenue	19,481,183	1,819,280	(1,724,838)	19,575,625
EXPENSES				
Program	9,037,998	-	-	9,037,998
Retail, marketing, and visitor services	3,304,038	-	-	3,304,038
Administration	1,797,693	94,442	-	1,892,135
Fundraising and membership	2,043,091	-	-	2,043,091
Total expenses	16,182,820	94,442	-	16,277,262
CHANGE IN NET ASSETS	3,298,363	1,724,838	(1,724,838)	3,298,363
NET ASSETS - Beginning of year	40,114,476	15,365,366	(15,365,366)	40,114,476
Transfer of assets from DBG Foundation to DBG	-	(400,000)	400,000	-
NET ASSETS - End of year	\$ 43,412,839	\$ 16,690,204	\$ (16,690,204)	\$ 43,412,839