

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

Years Ended September 30, 2020 and 2019

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

## **CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of

### DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

#### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Desert Botanical Garden, Inc. and Affiliates*** (collectively, the "Garden"), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years 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.

#### ***Auditors' 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 auditors' 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 consolidated financial position of ***Desert Botanical Garden, Inc. and Affiliates*** as of September 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, ***Desert Botanical Garden, Inc. and Affiliates*** adopted Financial Accounting Standards Update (“ASU”) No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, in fiscal year 2020 on a modified prospective basis. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive, flowing script.

January 22, 2021

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

### ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,172,543	\$ 6,778,907
Investments	73,635	573,680
Contributions receivable, net	314,129	304,034
Other current assets	<u>737,168</u>	<u>1,019,277</u>
TOTAL CURRENT ASSETS	8,297,475	8,675,898
CONTRIBUTIONS RECEIVABLE, net, less current portion	56,939	76,683
PROPERTY AND EQUIPMENT, net	23,443,444	24,193,139
EQUIPMENT HELD FOR SALE	1,984	268,245
OTHER ASSETS	98,773	98,773
ASSETS RESTRICTED TO INVESTMENT IN LONG - LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	325,185	198,311
Investments	<u>386,798</u>	<u>-</u>
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	92,303	68,618
Investments	16,025,964	15,638,603
Contributions receivable, net	88,014	103,430
Beneficial interest in remainder trust	345,000	310,000
Cash surrender value of life insurance policies	<u>164,067</u>	<u>145,613</u>
TOTAL ASSETS	<u>\$ 49,325,946</u>	<u>\$ 49,777,313</u>

### LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 101,710	\$ 528,064
Line of credit	1,500,000	-
Accounts payable and accrued liabilities	1,131,089	1,852,938
Deferred revenue	2,234,714	2,407,582
Annuity payment liability	<u>8,550</u>	<u>8,550</u>
TOTAL CURRENT LIABILITIES	4,976,063	4,797,134
DEFERRED REVENUE, less current portion	214,940	545,592
ANNUITY PAYMENT LIABILITY, less current portion	57,173	59,342
LONG-TERM DEBT, less current portion	<u>1,148,290</u>	<u>605,297</u>
TOTAL LIABILITIES	<u>6,396,466</u>	<u>6,007,365</u>
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Designated by the Board of Trustees		
Huizingh working capital fund	1,100,000	1,100,000
Asset replacement reserve	1,592,415	1,757,443
Opportunity reserve	821,809	833,151
Opportunity reserve - DLS	96,031	95,362
Emergency reserve	<u>1,002,680</u>	<u>510,055</u>
Total designated	4,612,935	4,296,011
Undesignated	<u>19,415,940</u>	<u>21,101,609</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	24,028,875	25,397,620
NET ASSETS WITH DONOR RESTRICTIONS	<u>18,900,605</u>	<u>18,372,328</u>
TOTAL NET ASSETS	<u>42,929,480</u>	<u>43,769,948</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,325,946</u>	<u>\$ 49,777,313</u>

See Notes to Consolidated Financial Statements

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Year Ended September 30, 2020

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Retail sales	\$ 986,923	\$ -	\$ 986,923
Cost of retail sales	<u>(236,955)</u>	<u>-</u>	<u>(236,955)</u>
Gross profit on retail sales	<u>749,968</u>	<u>-</u>	<u>749,968</u>
Beverage sales	545,224	-	545,224
Cost of beverage sales	<u>(92,480)</u>	<u>-</u>	<u>(92,480)</u>
Gross profit on beverage sales	<u>452,744</u>	<u>-</u>	<u>452,744</u>
Total gross profit on retail and beverage sales	1,202,712	-	1,202,712
Contributions	3,615,441	1,021,586	4,637,027
Admissions	3,920,334	-	3,920,334
Memberships	3,240,581	-	3,240,581
Governmental contracts	430,603	-	430,603
Educational classes	153,557	-	153,557
Facility rental and concessions	446,728	-	446,728
Investment income (loss)	(71,024)	1,130,296	1,059,272
Other revenues and gains	<u>22,841</u>	<u>49,054</u>	<u>71,895</u>
Total support and revenue before special events	<u>12,961,773</u>	<u>2,200,936</u>	<u>15,162,709</u>
Special events revenue	2,122,861	-	2,122,861
Less costs of direct donor benefits	<u>(390,742)</u>	<u>-</u>	<u>(390,742)</u>
Gross profit on special events	<u>1,732,119</u>	<u>-</u>	<u>1,732,119</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,672,659</u>	<u>(1,672,659)</u>	<u>-</u>
 <b>TOTAL SUPPORT AND REVENUE</b>	 <u>16,366,551</u>	 <u>528,277</u>	 <u>16,894,828</u>
<b>EXPENSES</b>			
Program	9,881,657	-	9,881,657
General and administrative	2,735,382	-	2,735,382
Marketing, retail, visitor services	2,278,878	-	2,278,878
Fundraising	<u>2,592,134</u>	<u>-</u>	<u>2,592,134</u>
<b>TOTAL EXPENSES</b>	<u>17,488,051</u>	<u>-</u>	<u>17,488,051</u>
<b>GAIN ON SALE OF PROPERTY AND EQUIPMENT</b>	21,000	-	21,000
<b>LOSS ON IMPAIRMENT OF EQUIPMENT HELD FOR SALE</b>	<u>(268,245)</u>	<u>-</u>	<u>(268,245)</u>
 <b>CHANGE IN NET ASSETS</b>	 (1,368,745)	 528,277	 (840,468)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>25,397,620</u>	<u>18,372,328</u>	<u>43,769,948</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 24,028,875</u>	 <u>\$ 18,900,605</u>	 <u>\$ 42,929,480</u>

See Notes to Consolidated Financial Statements

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Year Ended September 30, 2019

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Retail sales	\$ 1,883,793	\$ -	\$ 1,883,793
Cost of retail sales	<u>(305,424)</u>	<u>-</u>	<u>(305,424)</u>
Gross profit on retail sales	<u>1,578,369</u>	<u>-</u>	<u>1,578,369</u>
Beverage sales	967,990	-	967,990
Cost of beverage sales	<u>(159,785)</u>	<u>-</u>	<u>(159,785)</u>
Gross profit on beverage sales	<u>808,205</u>	<u>-</u>	<u>808,205</u>
Total gross profit on retail and beverage sales	2,386,574	-	2,386,574
Contributions	1,983,409	805,784	2,789,193
Admissions	4,793,384	-	4,793,384
Memberships	3,848,130	-	3,848,130
Governmental contracts	410,183	-	410,183
Educational classes	404,668	-	404,668
Facility rental and concessions	659,960	-	659,960
Investment income	63,303	340,881	404,184
Other revenues and gains	<u>3,481</u>	<u>38,399</u>	<u>41,880</u>
Total support and revenue before special events	<u>14,553,092</u>	<u>1,185,064</u>	<u>15,738,156</u>
Special events revenue	6,975,038	-	6,975,038
Less costs of direct donor benefits	<u>(789,845)</u>	<u>-</u>	<u>(789,845)</u>
Gross profit on special events	<u>6,185,193</u>	<u>-</u>	<u>6,185,193</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>2,176,776</u>	<u>(2,176,776)</u>	<u>-</u>
 <b>TOTAL SUPPORT AND REVENUE</b>	 <u>22,915,061</u>	 <u>(991,712)</u>	 <u>21,923,349</u>
 <b>EXPENSES</b>			
Program	11,810,513	-	11,810,513
General and administrative	3,108,475	-	3,108,475
Marketing, retail, visitor services	3,606,665	-	3,606,665
Fundraising	<u>2,482,500</u>	<u>-</u>	<u>2,482,500</u>
 <b>TOTAL EXPENSES</b>	 <u>21,008,153</u>	 <u>-</u>	 <u>21,008,153</u>
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	(125,783)	-	(125,783)
LOSS ON IMPAIRMENT OF EQUIPMENT HELD FOR SALE	<u>(536,427)</u>	<u>-</u>	<u>(536,427)</u>
 <b>CHANGE IN NET ASSETS</b>	 1,244,698	 (991,712)	 252,986
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <u>24,152,922</u>	 <u>19,364,040</u>	 <u>43,516,962</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 25,397,620</u>	 <u>\$ 18,372,328</u>	 <u>\$ 43,769,948</u>

See Notes to Consolidated Financial Statements

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2020

	Supporting Services			
	Program	General and Administrative	Marketing, Retail, Visitor Services	Fundraising
Salaries and Wages	\$ 4,594,668	\$ 1,395,788	\$ 1,051,024	\$ 1,367,414
Employee Related Expenses	985,014	251,287	204,930	300,405
Total Personnel Costs	5,579,682	1,647,075	1,255,954	1,667,819
Outside Services and Artist Fees	1,452,007	303,339	124,435	796,804
Advertising, Printing and Postage	95,552	82,972	464,519	44,243
Supplies and Plants	340,721	30,348	18,558	134,196
Rental and Lease	417,590	16,527	23,500	41,451
Merchant, Accounting and Permit Fees	5,277	351,312	-	1,708
Cost of Retail and Beverage Sales	329,435	-	-	-
Travel, Meals and Events	50,892	32,446	2,917	22,814
Utilities and Telephone	237,097	36,039	51,963	48,461
Repairs and Maintenance	111,680	11,889	17,205	5,382
Insurance	195,949	26,842	34,895	10,737
Other	253,233	40,158	81,566	146,687
Total before depreciation and amortization	9,069,115	2,578,947	2,075,512	2,920,302
Depreciation and Amortization	1,141,977	156,435	203,366	62,574
Total functional expenses	\$ 10,211,092	\$ 2,735,382	\$ 2,278,878	\$ 2,982,876
				\$ 18,208,228

See Notes to Consolidated Financial Statements



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2019

	Supporting Services				Total
	Program	General and Administrative	Marketing, Retail, Visitor Services	Fundraising	
Salaries and Wages	\$ 4,971,391	\$ 1,200,083	\$ 1,239,816	\$ 1,346,470	\$ 8,757,760
Employee Related Expenses	1,135,082	214,390	229,888	270,252	1,849,612
Total Personnel Costs	6,106,473	1,414,473	1,469,704	1,616,722	10,607,372
Outside Services and Artist Fees	2,207,992	513,644	459,096	981,766	4,162,498
Advertising, Printing and Postage	193,133	120,217	1,151,951	86,230	1,551,531
Supplies and Plants	907,946	48,153	38,928	96,519	1,091,546
Rental and Lease	430,458	19,684	28,945	92,918	572,005
Merchant, Accounting and Permit Fees	14,046	520,255	-	1,215	535,516
Cost of Retail and Beverage Sales	465,209	-	-	-	465,209
Travel, Meals and Events	90,441	77,908	11,230	172,271	351,850
Utilities and Telephone	221,795	33,990	53,816	41,901	351,502
Repairs and Maintenance	138,674	17,907	23,464	21,240	201,285
Insurance	111,696	15,301	19,891	6,120	153,008
Other	244,751	170,353	146,073	92,807	653,984
Total before depreciation and amortization	11,132,614	2,951,885	3,403,098	3,209,709	20,697,306
Depreciation and Amortization	1,143,108	156,590	203,567	62,636	1,565,901
Total functional expenses	\$ 12,275,722	\$ 3,108,475	\$ 3,606,665	\$ 3,272,345	\$ 22,263,207

See Notes to Consolidated Financial Statements

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (840,468)	\$ 252,986
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,564,352	1,565,901
Change in discount on contributions receivable	(10,283)	17,860
Change in cash surrender value of life insurance	(18,454)	(15,089)
Change in value of split-interest agreements	(6,684)	(17,634)
Amortization of deferred gift shop liability	(45,550)	(45,000)
Realized gains on investments	(499,031)	(243,274)
Unrealized (gains) losses on investments	(344,174)	225,925
(Gain) loss on sale/disposal of property and equipment	(21,000)	125,783
Loss on impairment of equipment held for sale	268,245	536,427
Contributions restricted for endowment	(5,500)	(2,810)
Contributions restricted for investment in long-lived assets	(386,500)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	229,448	1,012,186
Other current assets	72,593	795,745
Beneficial interest in remainder trust	(28,450)	(4,500)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(542,278)	(285,974)
Deferred revenue	(457,970)	357,082
Annuity payment liability	(2,035)	(2,264)
Other liabilities	-	(19,144)
Net cash (used in) provided by operating activities	<u>(1,073,739)</u>	<u>4,254,206</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of equipment held for sale	36,264	-
Proceeds from sale of investments	2,687,858	3,067,982
Purchase of investments	(2,118,767)	(3,311,110)
Purchase of property and equipment	<u>(1,011,476)</u>	<u>(2,323,976)</u>
Net cash used in investing activities	<u>(406,121)</u>	<u>(2,567,104)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Draws (payments) on line of credit	1,500,000	(500,000)
Proceeds from contributions restricted for endowment	20,916	2,810
Proceeds from contributions restricted for investment in long-lived assets	386,500	-
Proceeds from issuance of long-term debt	386,639	613,361
Payments on long-term debt	<u>(270,000)</u>	<u>(20,000)</u>
Net cash provided by financing activities	<u>2,024,055</u>	<u>96,171</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	544,195	1,783,273
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR</b>	<u>7,045,836</u>	<u>5,262,563</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR</b>	<u>\$ 7,590,031</u>	<u>\$ 7,045,836</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 57,557</u>	<u>\$ 38,728</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment additions included in accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 179,571</u>
 Cash and cash equivalents	 \$ 7,172,543	 \$ 6,778,907
Cash and cash equivalents restricted to investment in long-lived assets and improvements	325,185	198,311
Cash and cash equivalents restricted for endowment	<u>92,303</u>	<u>68,618</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 7,590,031</u>	<u>\$ 7,045,836</u>

See Notes to Consolidated Financial Statements

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies

**Nature of operations – *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 9,700 books and 500 serial publications on deserts and desert plants, and a 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 (the "Foundation"), and DBG Agave, LLC (collectively, the "Garden"). All significant intercompany transactions and accounts, which relate primarily to DBG's beneficial interest in the net assets of the Foundation, have been eliminated in consolidation.

***Desert Botanical Garden 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 was inactive for the period from its inception (August 2008) through September 30, 2008. From October 1, 2008 through September 30, 2019, 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 \$8,452,000. No amounts were transferred to the Foundation during the year ended September 30, 2020. The Foundation distributed approximately \$749,000 and \$600,000 to DBG as a draw on accumulated investment earnings for the years ended September 30, 2020 and 2019, respectively.

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, 2020, and had no assets or liabilities as of September 30, 2020.

**Basis of presentation –** The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Organizations – Presentation of Financial Statements*. Under FASB ASC 958-205, the Garden is required to report information regarding their consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Garden maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

#### Net assets without donor restrictions

Net asset without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Garden. These net assets may be used at the discretion of the Garden's management and the Board of Trustees.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) **Operations and summary of significant accounting policies (continued)**

#### **Net assets with donor restrictions**

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Garden or by the passage of time. Other donor restrictions are perpetual in nature, whereby 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 consolidated statements of activities and change in net assets.

**Management's use of estimates** – The preparation 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 the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Cash and cash equivalents** – Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have original maturities of three months or less. At times, cash and cash equivalent balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The Garden believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions. At September 30, 2020 and 2019, the Garden's uninsured cash balances totaled approximately \$6,838,000 and \$6,296,000, respectively.

**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, 2020, 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 \$160,000 and \$271,000 at September 30, 2020 and 2019, respectively, and are included in other current assets in the accompanying consolidated statements 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. Bequests receivable totaled approximately \$0 and \$90,000 at September 30, 2020 and 2019, respectively, and are included in contributions receivable in the accompanying consolidated statements of financial position. Bequests receivable at September 30, 2019 are considered by management to be collectible in full, and accordingly, an allowance for uncollectible bequests receivable is not considered necessary.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

**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 to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value technique. In periods subsequent to initial recognition, promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the pledge receivable is based upon management's assessment of many factors including when the pledge receivable is expected to be collected, the creditworthiness of the other parties, the Garden's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge receivable's collectability. Amortization of the discounts is included in contributions in the accompanying consolidated statements of activities and change in net assets. Conditional promises to give are not included as support until the conditions are met. Promises to give at September 30, 2020 and 2019 are considered by management to be collectible in full, and accordingly, an allowance for uncollectible promises to give is not considered necessary.

**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 \$44,000 and \$47,000 at the years ended September 30, 2020 and 2019, and are included in other current assets in the accompanying consolidated statements of financial position.

**Beneficial interest in remainder trust** – 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.

**Investments** – The Garden accounts for their equity securities in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities* and their debt securities in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt Securities*. Under FASB ASC 958-320 and FASB ASC 958-321, the Garden reports investments in equity and debt securities at fair value. The fair values of investments are based on quoted market prices or net asset value ("NAV"). The Garden's investments in U.S. Treasuries are valued using third party pricing models maximizing the use of observable inputs for similar securities, including basing value on yields currently available on comparable securities with similar credit ratings. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends, and net of investment fees) is included in net assets without donor restrictions unless the associated income or loss is restricted by donor.

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.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

**Fair value measurements** – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring the use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. It also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

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 years ended September 30, 2020 and 2019, F&F, LLC had no activity and as of September 30, 2020 and 2019, F&F, LLC had no assets or liabilities. Thus, there is no balance recorded in the consolidated financial statements for this joint venture.

**Property and equipment** – Purchased property and equipment is recorded at cost and donated property and equipment is recorded at 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 is sold or otherwise disposed of, the asset and related accumulated depreciation account is relieved and any gain or loss is included in operations.

Property and equipment has 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 has 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.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) **Operations and summary of significant accounting policies (continued)**

Depreciation of property and equipment is computed using the straight-line method over the following estimated range of 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 reported as increases in net assets without donor restrictions 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 revenues with donor restrictions. 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.

**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 \$164,000 and \$146,000 as of the years ended September 30, 2020 and 2019, respectively. 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 for the years ended September 30, 2020 and 2019 and has been included in other assets in the accompanying consolidated statements of financial position.

Changes in the value of these life insurance policies totaling approximately \$18,000 and \$15,000 are included in other revenues and gains in the accompanying consolidated statements of activities and change in net assets for the years ended September 30, 2020 and 2019, respectively.

**Impairment of long-lived assets** – The Garden accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed 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 undiscounted 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.

**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

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

**Contributions** – The Garden adopted the amendments of FASB Accounting Standards Update (“ASU”) No. 2018-08, Not-For-Profit Entities (Topic 958), *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective October 1, 2019 on a modified prospective basis for contributions received. ASU 2018-08 clarifies the characterization of grants as either reciprocal transaction (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. In accordance with ASU 2018-08, the Foundation evaluates grants and contributions for evidence of the transfer of commensurate value from the Garden to the grantor or resource provider. The transfer of commensurate value from the Garden to the grantor or resource provider may include instances when a) the goods or services provided by the Garden directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Garden. When such factors exist, the Garden accounts for the grants or contributions as exchange transactions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, or other appropriate guidance. In the absence of these factors, the Garden accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Garden to the resource provider, the Garden evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Garden or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Garden and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Garden to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Garden recognizes amounts received from unconditional contributions at the time the Garden receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Garden.

The Garden accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions with donor restrictions or contributions without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions on the consolidated statement of activities and change in net assets depending on the nature of the restriction. All contributions are considered to be available for general use unless specifically restricted by the donor. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions. Additionally, contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as contributions without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as contributions with donor restrictions. The restrictions are considered to be released at the time such long-lived assets are placed into service.



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

**Revenue recognition** – The Garden records admissions revenue, which consists of ticket sales, when earned, which is typically as tickets are sold. Retail and beverage sales revenue consist of revenue earned from third-party operations of the restaurant and gift shop, semi-annual plant sales, beverage sales, and other fees. Retail and beverage 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. Revenue from educational classes and facility rentals is recognized when services are provided. Revenue from government grants and contracts is recognized when services are rendered under unit of service contracts or as allowable costs are incurred under cost reimbursement contracts. A receivable is recorded to the extent the amount earned exceeds cash advances. Conversely, a liability is recorded when cash advances exceed amounts earned.

**Donated materials and services** – The Garden recognizes donations of materials at their estimated fair value on the date received. Donated services are recognized as contributions, in accordance with FASB ASC 958-605, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

Donated materials and services, which are included in contributions in the accompanying consolidated statements of activities and change in net assets, consist of the following for the year ended September 30, 2020:

	<b>Contributed Services</b>	<b>Supplies and Plants</b>	<b>Advertising, Printing, and Postage</b>	<b>Total</b>
Program	\$ 181,600	\$ 30,220	\$ -	\$ 211,820
General and Administrative	-	2,500	177,900	180,400
Marketing, Retail, Visitor Services	2,500	-	-	2,500
Fundraising	75,781	12,216	-	87,997
Total in-kind expense	<u>\$ 259,881</u>	<u>\$ 44,936</u>	<u>\$ 177,900</u>	<u>\$ 482,717</u>

Donated materials and services, which are included in contributions in the accompanying consolidated statements of activities and change in net assets, consist of the following for the year ended September 30, 2019:

	<b>Contributed Services</b>	<b>Supplies and Plants</b>	<b>Advertising, Printing, and Postage</b>	<b>Total</b>
Program	\$ 391,336	\$ 130,429	\$ -	\$ 521,765
General and Administrative	-	1,429	339,588	341,017
Marketing, Retail, Visitor Services	26,361	45,185	-	71,546
Fundraising	89,519	14,358	-	103,877
Total in-kind expense	<u>\$ 507,216</u>	<u>\$ 191,401</u>	<u>\$ 339,588</u>	<u>\$ 1,038,205</u>

Contributed services above include approximately \$176,000 and \$368,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets for the years ended September 30, 2020 and 2019, respectively. 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 as they did not qualify for recording under the guidelines of FASB ASC 958-605.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

**Special events revenue** – The Garden conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective reason 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 included in special events revenues and simultaneously 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 recorded as gross profit on special events in the accompanying consolidated statements of activities and change in net assets. Direct costs incurred prior to the events are recorded as other current assets in the accompanying consolidated statements 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 activities have been summarized on a functional basis in the accompanying consolidated statements of activities and change in net assets. The consolidated statements of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the program and supporting services benefited based on personnel activity and other appropriate allocation methods. Such allocations are determined by management on an equitable basis.

The departmental expenses that are allocated by natural classification include the following:

Salaries and wages and employee related expenses	
Information Technology (IT)	Number of FTEs
Facilities and security	Square feet of space used
Events	Time incurred
IT costs included in other expenses	Number of FTEs
Facilities and security costs included in outside services, supplies and plants, travel, meals, and events, repairs and maintenance, rental and leases, utilities and telephone, and other expenses	Square feet of space used
Depreciation and amortization	Square feet of space used

**Advertising** – The Garden uses advertising to promote its program to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense totaled approximately \$484,000 (including in-kind advertising described above of approximately \$178,000) for the year ended September 30, 2020, and has been included in advertising, printing and postage in the accompanying consolidated statements of functional expenses. For the year ended September 30, 2019, advertising expense totaled approximately \$1,146,000 (including in-kind advertising of approximately \$340,000).

**Income taxes** – DBG and the Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and, accordingly, there is no provision for income taxes. In addition, DBG and the Foundation qualify for the charitable contribution deduction under Section 170 of the IRC and have been classified as organizations that are not private foundations. DBG Agave is a disregarded entity for tax purposes. Income determined to be unrelated business taxable income would be taxable.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

DBG and the Foundation file information returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of September 30, 2020, U.S. federal information returns for years ended prior to September 30, 2016 and state returns for years ended prior to September 30, 2016 were closed to assessment. Interest and penalties, if any, are accrued as a component of administration expenses when assessed.

The Garden accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes* by applying a more-likely-than-not threshold to the recognition and de-recognition of uncertain tax positions in earnings in the year of such change. The Garden evaluates potential uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. 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, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 will require an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For nonpublic entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Nonpublic entities may elect to early adopt the ASU, however, adoption is not permitted prior to the public entity effective date.

In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Garden is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The update is intended to be applied on a modified prospective basis, but retrospective application is permitted. The Garden adopted this update for the year ended September 30, 2020 using the modified prospective approach. As a result of the adoption of the update, certain receivables from governmental contracts were reclassified from other current assets to contributions receivable of \$209,516 at September 30, 2020. There were no changes to the consolidated statement of activities and change in net assets as a result of adoption.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the consolidated statement of activities and change in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Garden is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), which allows certain entities to elect to defer the effective date of provisions of FASB ASU No. 2014-09 and ASU No. 2016-02. Entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021. The Garden has adopted the ASU in the current year to defer the effective date of the provisions of FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2019. The Garden is currently evaluating the full effect that adoption of the ASU related to deferring the effective date of the lease guidance will have on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements in ASC 820, *Fair Value Measurement*. The new standard is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Garden is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In March 2019, FASB issued ASU No. 2019-03, Not-for-Profit Entities (Topic 958): *Updating the Definition of Collections*. ASU No. 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 No. 2019-03 is effective for fiscal years beginning after December 15, 2019. The Garden is currently evaluating the effect that the adoption of this standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 improves the current net asset classification requirements and the information presented in consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Certain amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Garden adopted ASU 2016-14 in fiscal year 2019.

In accordance with the amendments of this ASU, the Garden elected to present expenses by function and nature as a separate consolidated statement of functional expenses. Additionally, the Garden disclosed its liquidity and availability of resources in Note 18.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (1) Operations and summary of significant accounting policies (continued)

A summary of the beginning net asset reclassifications driven by the adoption of ASU No. 2016-14 as of September 30, 2018 is as follows:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total Net Assets
As previously reported:			
Unrestricted	\$ 24,152,922	\$ -	\$ 24,152,922
Temporarily Restricted	-	4,644,514	4,644,514
Permanently Restricted	-	14,719,526	14,719,526
Net assets, as reclassified	<u>\$ 24,152,922</u>	<u>\$ 19,364,040</u>	<u>\$ 43,516,962</u>

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Garden elected to early adopt the ASU during the year ended September 30, 2019. Accordingly, the Garden increased the cash, cash equivalents, and restricted cash at the beginning of the year by approximately \$571,000 to conform to the new presentation requirements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires an entity to present contributed nonfinancial assets in a separate line item in the consolidated statement of activities and change in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, an entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measurement at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Garden is currently evaluating the impact adoption will have on the consolidated financial statements.

**Subsequent events** – The Garden has evaluated events through January 22, 2021, which is the date the consolidated financial statements were available to be issued.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (2) Contributions receivable

Contributions receivable consisted of the following at September 30:

	<b>2020</b>	<b>2019</b>
Promises to give - restricted for a specified purpose		
The Saguaro Initiative Campaign	\$ 32,000	\$ 108,484
Endowment	110,000	126,442
Other programs	30,000	62,500
Promises to give - without donor restrictions	313,953	133,875
Bequests - without donor restrictions	-	90,000
Total contributions receivable	485,953	521,301
Less: unamortized discount	(26,871)	(37,154)
Contributions receivable, net	<u>\$ 459,082</u>	<u>\$ 484,147</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:

	<b>2020</b>	<b>2019</b>
Contributions receivable due in less than one year	\$ 314,129	\$ 304,034
Contributions receivable due in one to five years	61,824	107,267
Contributions receivable due thereafter	110,000	110,000
Total contributions receivable	<u>\$ 485,953</u>	<u>\$ 521,301</u>

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

	<b>2020</b>	<b>2019</b>
Contributions receivable due in less than one year	\$ 15,733	\$ 86,033
Contributions receivable due in one to five years	-	10,745
Total contributions receivable due from employees and member of the Board of Trustees	<u>\$ 15,733</u>	<u>\$ 96,778</u>

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (3) Investments

Investments consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Mutual Funds - Equity		
Domestic	\$ 8,032,470	\$ 7,203,027
International	2,888,298	3,180,032
Mutual Funds - Bonds	4,523,670	4,257,684
US Treasuries	-	500,391
Hedge Funds	1,041,959	1,071,149
Total	<u>\$ 16,486,397</u>	<u>\$ 16,212,283</u>

Investments include amounts held for endowment as well as amounts held for short-term investments available for normal operating expenses. Accordingly, investments are classified as both current and non-current assets on the accompanying consolidated statements of financial position. The assets above are included in the following line items in the accompanying consolidated statements of financial position at September 30:

	<u>2020</u>	<u>2019</u>
Current investments	\$ 73,635	\$ 573,680
Investments restricted for long-lived assets	386,798	-
Investments restricted for endowment	16,025,964	15,638,603
Total	<u>\$ 16,486,397</u>	<u>\$ 16,212,283</u>

The following summarizes the investment income for the year ended September 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Interest and dividends	\$ 22,671	\$ 293,976	\$ 316,647
Unrealized gains (losses)	(93,695)	437,869	344,174
Realized gains	-	499,031	499,031
Brokerage fees	-	(100,580)	(100,580)
Net Investment income	<u>\$ (71,024)</u>	<u>\$ 1,130,296</u>	<u>\$ 1,059,272</u>

The following summarizes the investment income for the year ended September 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Interest and dividends	\$ 63,303	\$ 423,322	\$ 486,625
Unrealized losses	-	(225,925)	(225,925)
Realized gains	-	243,274	243,274
Brokerage fees	-	(99,790)	(99,790)
Net Investment income	<u>\$ 63,303</u>	<u>\$ 340,881</u>	<u>\$ 404,184</u>

Investment earnings from endowments are classified as net assets with donor restrictions.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (4) Property and equipment

Property and equipment consists of the following at September 30:

	2020	2019
Buidings and building improvements	\$ 21,631,922	\$ 20,193,479
Ground installations	17,155,187	17,222,221
Computer equipment and technology	2,093,988	2,074,023
Office furniture, fixtures and equipment	1,381,714	1,381,714
Master plan for buildings and exhibits	583,268	583,268
Machinery and equipment	855,227	830,608
Vehicles	149,967	104,712
Construction in progress	587,830	1,376,449
Total property and equipment	44,439,103	43,766,474
Less accumulated depreciation	(20,995,659)	(19,573,335)
Net property and equipment	<u>\$ 23,443,444</u>	<u>\$ 24,193,139</u>

Depreciation expense was \$1,564,352 and \$1,565,901 for the years ended September 30, 2020 and 2019, respectively.

Construction in progress at September 30, 2019 included the expansion of the Garden's restaurant, Gertrude's. Total costs of the project was approximately \$1 million and was funded was through the issuance of a note payable described in Note 9. The project was completed at the end of December 2019. Construction in progress at September 30, 2020 includes the renovation of the Children and Family Garden. Estimated costs to complete is approximately \$10 million and no timeline has yet been established for completion.

### (5) Equipment held for sale

Equipment held for sale consists of certain equipment that was purchased for a special event and used during fiscal year 2019. The Garden determined that the equipment is no longer needed and management has approved its sale. Equipment held for sale is carried at the lesser of the book value or fair value less estimated costs to sell. The Garden recorded an impairment charge of \$268,245 and \$536,427 during the years ended September 30, 2020 and 2019, respectively. In accordance with GAAP, when an impairment write-down is required, the related assets are adjusted to their estimated fair value less costs to sell. In determining fair value, the Garden considered the range of preliminary purchase prices being discussed with potential buyers. The estimated market value of the assets was written down in September 30, 2019 and again during the year ended September 30, 2020 when the assets failed to sell as expected.



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (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 9,700 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 2020 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 \$45, for an estimated total of herbarium specimens in the approximate range of \$4,219,000 to \$4,271,000. 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 net assets without donor restrictions in program expense in the accompanying consolidated statements of activities and change in net assets. During the years ended September 30, 2020 and 2019, 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 contributions with donor restrictions 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 2.20% to 6.00%.

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 statements of activities and change in net assets. The net change in the value of the gift annuity liabilities for the years ended September 30, 2020 and 2019 (not including cash payments to beneficiaries) was an increase of approximately \$7,000 and \$18,000, respectively.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (8) 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, plus 3% (3.15% and 5.00% at September 30, 2020 and 2019, respectively), and are collateralized by substantially all the assets of DBG. The line of credit was originally scheduled to mature in March 2019. In March 2018, DBG and the bank executed an agreement to extend the maturity date to June 2019 then June 2020. Effective May 7, 2020, the maturity date was further extended to June 2021. As of September 30, 2020, the Garden has \$1,500,000 outstanding under the line of credit. No amounts were outstanding under the line of credit as of September 30, 2019. Interest expense incurred was \$31,311 and \$0 for the years ended September 30, 2020 and 2019, respectively.

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 net assets without donor restrictions. The line of credit agreement also includes certain nonfinancial covenants, including timely submission of audited financial statements.

### (9) Long term debt

DBG has a term note payable with a bank which bears interest at 3.70% at September 30, 2020 (previously 1-month LIBOR plus 3.00% (5.00%) at September 30, 2019). 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 June 2023 with a balloon payment estimated at approximately \$210,000. The note is collateralized by substantially all the assets of DBG. At September 30, 2020, the total amount outstanding on the note payable was \$250,000. Interest expense incurred was \$17,866 and \$32,556 for the years ended September 30, 2020 and 2019, respectively.

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

Effective August 1, 2019, DBG entered into a \$1,000,000 note payable agreement with a nonprofit community foundation to finance certain capital projects. The note is unsecured and bears interest, payable monthly, at 3.5% per annum. Effective April 2020, the note requires monthly payments of \$10,981 beginning December 1, 2020, and continuing through June 1, 2029, at which time the outstanding principal and accrued interest are due. The note is collateralized by substantially all the assets of DBG and bears certain financial and nonfinancial covenants. As of September 30, 2019, total draws of \$613,361 had been made under the note payable agreement. Subsequent to September 30, 2019, an additional \$386,639 was drawn bringing the total loan outstanding balance under the note payable agreement to \$1,000,000 as of September 30, 2020.

Interest expense incurred was \$8,380 and \$1,491 for the years ended September 30, 2020 and 2019, respectively.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (9) Long term debt (continued)

Annual principal payments on the long-term debt are scheduled as follows:

#### Years Ending September 30,

2021	\$	101,710
2022		121,245
2023		314,846
2024		108,575
2025		112,437
Thereafter		491,187
Total future maturities		1,250,000
Less current portion		(101,710)
Total future maturities, less current portion	\$	<u>1,148,290</u>

### (10) Net assets with donor restrictions

Net assets with donor restrictions are restricted for purposes or periods as follows at September 30:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for a specified purpose		
The Saguaro Initiative - Undesignated	\$ 114,142	\$ 305,243
Desert Conservation Lab / Center for Plant Science	-	105,083
Community engagement	149,906	475,824
Education programs	176,213	214,971
Research	288,723	90,683
Other Garden exhibits / improvements	565,034	51,404
Other purpose restrictions	211,107	171,909
Total net assets restricted for a specified purpose	<u>1,505,125</u>	<u>1,415,117</u>
Subject to expenditure over time		
Earnings on endowments	<u>2,575,791</u>	<u>2,196,476</u>
Subject to restriction in perpetuity		
Contributions receivable, net	88,014	103,430
Cash surrender value of life insurance	164,067	145,613
Beneficial interest in remainder trust	345,000	310,000
Assets held under endowment	<u>14,222,608</u>	<u>14,201,692</u>
Total net assets held in perpetuity	<u>14,819,689</u>	<u>14,760,735</u>
Total net assets with donor restrictions	<u>\$ 18,900,605</u>	<u>\$ 18,372,328</u>

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (11) Net assets released from donor restrictions

Net asset released from restriction consist of the following for the year ended September 30:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
The Saguaro Initiative - Undesignated	\$ 196,000	\$ 115,694
Desert Conservation Lab / Center for Plant Science	-	891,226
Community engagement	435,366	453,531
Education programs	65,258	81,682
Research	125,749	148,148
Other Garden exhibits / improvements	-	12,998
Other purpose restrictions	99,305	40,018
Total satisfaction of purpose restrictions	921,678	1,743,297
Expiration of time restrictions	750,981	433,479
Total net assets released from restrictions	<u>\$ 1,672,659</u>	<u>\$ 2,176,776</u>

### (12) Net assets without donor restrictions

The Garden's Board of Trustees has designated portions of the net assets without donor restrictions to set aside funds for various anticipated future uses. The funds are primarily invested in money market funds. Balances held and the Board's intended use as of September 30, 2020 were as follows:

	<u>2020</u>	<u>2019</u>
Huizingh Working Capital Fund	\$1,100,000	\$1,100,000
To help ensure the long-term financial stability of the Garden by managing cash flow using this as an internal line of credit		
Asset Replacement Reserve	\$1,592,415	\$1,757,443
Intended to provide funds for repair or replacement of buildings, equipment, and other capital assets needed for the effective operation of the Garden		
Opportunity Reserve	\$821,809	\$833,151
Intended to provide funds to meet special targets of opportunity or needs that further the Garden's mission which may or may not have specific expectations of incremental or long-term increased income		
Desert Landscaping School (DLS) Opportunity Reserve	\$96,031	\$95,362
To provide the DLS with the financial flexibility necessary to try new Ideas such as new marketing campaigns, or earned income ventures, or allow the pursuit of new strategic directions		
Emergency Reserve	\$1,002,680	\$510,555
To provide a ready source of funds for unexpected material downturns in the Garden's cash flow or financial condition		

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (13) Endowments

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.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Trustees of the Garden has interpreted MCFA 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 net assets restricted in perpetuity (a) the original value of gifts donated to the perpetual endowment, and (b) the original value of subsequent gifts to the perpetual endowment.

The remaining portion of the donor-restricted endowment fund that is not classified as net assets restricted in perpetuity is classified as net assets with donor restrictions that are subject to purpose or time restrictions based upon the presence or absence of donor restrictions and are appropriated for expenditure by the Garden in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, 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

Endowment net asset composition by type of fund as of September 30, 2020 were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted endowments - held in perpetuity	\$ -	\$ 14,222,608	\$ 14,222,608
Accumulated earnings on donor endowments subject to spending policies	-	2,575,791	2,575,791
Endowment net assets	<u>\$ -</u>	<u>\$ 16,798,399</u>	<u>\$ 16,798,399</u>

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (13) Endowments (continued)

Endowment net asset composition by type of fund as of September 30, 2019 were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted endowments - held in perpetuity	\$ -	\$ 14,201,692	\$ 14,201,692
Accumulated earnings on donor endowments subject to spending policies	-	2,196,476	2,196,476
Endowment net assets	<u>\$ -</u>	<u>\$ 16,398,168</u>	<u>\$ 16,398,168</u>

The changes in endowment net assets for the year ended September 30, 2020 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ 16,398,168	\$ 16,398,168
Investment return:			
Investment income	-	193,396	193,396
Net appreciation	-	936,900	936,900
Proceeds from contributions and collections	-	20,916	20,916
Appropriations of endowment assets for expenditure	-	(750,981)	(750,981)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 16,798,399</u>	<u>\$ 16,798,399</u>

The changes in endowment net assets for the year ended September 30, 2019 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 169,117	\$ 16,480,205	\$ 16,649,322
Investment return:			
Investment income	-	323,532	323,532
Net appreciation	-	17,349	17,349
Proceeds from contributions and collections	-	10,561	10,561
Appropriations of endowment assets for expenditure	(169,117)	(433,479)	(602,596)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 16,398,168</u>	<u>\$ 16,398,168</u>

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (13) Endowments (continued)

The Garden 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 long-term objective of the Garden is to generate a total return greater than the inflation rate and annual distributions over a complete market cycle with an emphasis on reducing volatility through prudent diversification. The rate of return objective is measured and evaluated over a long term time horizon of 5 year periods or more. Due to capital market volatility, the return may vary significantly over shorter period of time. 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.

The Foundation endowment includes a portion known as the Webster Charitable Trust which had a value of approximately \$900,000 at September 30, 2020 and 2019. The entire endowment, including the Webster Trust, was established for the future prosperity of the Garden.

The Foundation Board directs that on October 1 of each year, or the first business day thereafter, an amount equal to 5.0% of the Webster trust, and 4.5% of the balance of the endowment, be distributed from the Foundation to the Garden. Average assets are calculated based on the preceding 12 quarter ends.

In July 2019, the Foundation's Board of Directors approved appropriation for expenditure of \$690,947 to be distributed in October 2019 for use in fiscal year 2020. As a result, these assets are classified as current assets in the accompanying statement of consolidated financial position.

In April 2020, the Foundation approved \$58,024 to be distributed to the Garden for use within fiscal year 2020. In July 2020, the Foundation's Board of Directors approved appropriation for expenditure of \$680,132 to be distributed in October 2020 for use in fiscal year 2021. As a result, these assets are classified as current assets in the accompanying statement of consolidated financial position.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors does not permit distributions to reduce the value of the endowment funds below the original value of donor contributions. There were no such deficiencies at September 30, 2020 or 2019.

### (14) Commitments and contingencies

**Operating leases** – The Garden leases the land on which the Garden is located from the City of Phoenix for \$1 per year. The lease provides for automatic renewals for terms of five years each. The current lease term expires in June 2022.

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 which expires in 2023.

The Garden also leases various other equipment with terms expiring through April 2025. Monthly payments on these leases total approximately \$22,000. In the normal course of business, operating leases are generally renewed or replaced by other leases.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (14) Commitments and contingencies (continued)

During the year ended September 30, 2015, the Garden received cash payment from a lessor as a lease incentive. This lease incentive is recognized on a straight-line basis over the term of the related lease, which expired in May 2020. The current portion of the liability for unrecognized lease incentives totaled approximately \$0 and \$19,000 at September 30, 2020 and 2019, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position at September 30, 2020 and 2019.

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

#### Years Ending September 30,

2021	\$ 185,547
2022	162,945
2023	155,623
2024	103,736
2025	36,588
Total minimum future rental payments	<u>\$ 644,439</u>

Lease expense for the year ended September 30, 2020 and 2019 (net of amortized lease incentives totaling approximately \$16,750 and \$28,700) was approximately \$150,100 and \$166,000, respectively.

**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. Annual amortization of approximately \$45,000 is amortized to revenue and is included in retail sales in the accompanying consolidated statements of activities and change in net assets. The remaining balance of \$409,000 and \$455,000 subject to potential repayment at September 30, 2020 and 2019, respectively, is included in deferred revenue in the accompanying consolidated statements of financial position.

**Litigation** – 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 consolidated financial condition.



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (15) Fair value measurements

The following table sets forth the level, within the fair value hierarchy of the Garden's assets, other than investments measured at NAV as a practical expedient, as of September 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurements</u>				
Mutual Funds - Equity				
Domestic	\$ 8,032,470	\$ -	\$ -	\$ 8,032,470
International	2,888,298	-	-	2,888,298
Mutual Funds - Bonds	<u>4,523,670</u>	<u>-</u>	<u>-</u>	<u>4,523,670</u>
Total investments	15,444,438	-	-	15,444,438
Beneficial interest in remainder trust	<u>-</u>	<u>-</u>	<u>345,000</u>	<u>345,000</u>
Total recurring fair value measurements	<u>\$ 15,444,438</u>	<u>\$ -</u>	<u>\$ 345,000</u>	<u>\$ 15,789,438</u>
<u>Nonrecurring fair value measurement</u>				
Equipment held for sale		<u>\$ 1,984</u>		

The following table sets forth the level, within the fair value hierarchy of the Garden's assets, other than investments measured at NAV as a practical expedient, as of September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurements</u>				
Mutual Funds - Equity				
Domestic	\$ 7,203,027	\$ -	\$ -	\$ 7,203,027
International	3,180,032	-	-	3,180,032
Mutual Funds - Bonds	<u>4,257,684</u>	<u>-</u>	<u>-</u>	<u>4,257,684</u>
US Treasuries	<u>-</u>	<u>500,391</u>	<u>-</u>	<u>500,391</u>
Total investments	14,640,743	500,391	-	15,141,134
Beneficial interest in remainder trust	<u>-</u>	<u>-</u>	<u>310,000</u>	<u>310,000</u>
Total recurring fair value measurements	<u>\$ 14,640,743</u>	<u>\$ 500,391</u>	<u>\$ 310,000</u>	<u>\$ 15,451,134</u>
<u>Nonrecurring fair value measurement</u>				
Equipment held for sale		<u>\$ 268,245</u>		

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (15) Fair value measurements (continued)

*Beneficial interest in remainder trust* – 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 \$35,000 and \$22,000 for the year ended September 30, 2020 and 2019, respectively, and are included in other revenues and gains in the accompanying consolidated statements of activities and change in net assets. The unit of account for fair value measurement related to this beneficial interest is the beneficial interest itself, not the underlying assets of the trust. There are no unadjusted quoted market prices in active markets for identical beneficial interests (Level 1 inputs) and there are no other observable inputs in active or inactive markets specific to beneficial interests (Level 2 inputs). Accordingly, the fair value of the beneficial interest is based upon unobservable inputs for the beneficial interest (Level 3 inputs).

In accordance with FASB ASC 820, the Garden is required to disclose the nature and risks of investments reported at NAV. The Garden has elected to adopt the provisions of ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. As a result of this election, investments reported at NAV as a practical expedient are excluded from the fair value hierarchy.

*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.

The hedge funds are reported at fair value at \$1,041,959 and \$1,071,149 as of September 30, 2020 and 2019, respectively, have no unfunded commitments and can be redeemed quarterly with 60 days' notice.

### (16) 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 \$209,582 and \$283,350 for the years ended September 30, 2020 and 2019, respectively.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (16) Employee benefit plans (continued)

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 \$40,000 and \$95,000 during the years ended September 30, 2020 and 2019, respectively. Distributions from the Non-Qualified 457(f) Plans during the years ended September 30, 2020 and 2019, totaled approximately \$204,000 and \$18,500, respectively. As of September 30, 2020 and 2019, approximately \$130,000 and \$257,000 has been accrued and included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position, representing the Garden's accumulated undistributed contributions to the Non-Qualified 457(f) Plans. While the Garden has set aside approximately \$130,000 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 \$169,000 in a separate account (representing accumulated participant contributions, plus earnings thereon), these funds remain available to the general creditors of the Garden.

### (17) Concentrations

**Support and revenue** – During the years ended September 30, 2020 and 2019, the Garden received contributions from a donor that represented approximately 10% of total contributions for the year.

### (18) Liquidity and availability of resources

Financial assets available for general expenditure as of September 30 are as follows:

	2020	2019
Cash and cash equivalents	\$ 7,590,031	\$ 7,045,836
Contributions receivable, net	459,082	484,147
Accounts receivable, net	160,000	271,471
Investments	16,486,397	16,212,283
Total financial assets available within one year	24,695,510	24,013,737
Less: Amounts unavailable for general expenditures within one year:		
Net assets with donor restrictions	18,900,605	18,372,328
Designated by the Board of Trustees	4,612,935	4,296,011
Total amounts unavailable for general expenditure within one year	23,513,540	22,668,339
Financial assets available to meet cash needs for general expenditure within one year after board designations	\$ 1,181,970	\$ 1,345,398

The Garden monitors cash flows on a monthly basis and the liquidity plan has a goal to maintain cash on hand and short-term investments to meet normal operating expenses, which are on average approximately \$1.3 million per month.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (18) Liquidity and availability of resources (continued)

The Garden's cash flows have seasonal variations during the year attributable to events and exhibits normally scheduled during the months of October – May. As such, both an internal and external line of credit are available to manage cash flows due to the seasonality of business. The Board of Trustees has established the Huizingh Working Capital Fund of \$1,100,000 to ensure the long-term financial stability of the Garden, and position it to respond to varying economic conditions as an internal line of credit. To help manage unanticipated liquidity needs, the Garden may also draw upon \$1,500,000 of funds available on an external line of credit from Chase Bank.

Occasionally, the Board designates a portion of any operating surplus to its board-designated reserves of Opportunity Reserve, Emergency Reserve, Asset Replacement Reserve and the Desert Landscape School ("DLS") Opportunity Reserve, which are available with Board approval. The Garden does not intend to spend these reserves for purposes other than those designated by the Board, however they could be available to fund current operations, if necessary, through Board resolution.

The Board may also designate a portion of any operating surplus to the Desert Botanical Garden Foundation. The Foundation allocates 4.5% of its endowment to the Garden's operating budget, and may allocate additional funds, if necessary, as approved by the Foundation's Board.

### (19) Risks and uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As a result of the pandemic, the Garden was temporarily closed in late March through June 2020 as required by State of Arizona regulations. Additionally, several events, including Dinner on the Desert, were cancelled. Cash received from planned attendees were either returned, converted to contributions, or converted to memberships. No impairments were recorded as of the date of the consolidated statement of financial position as no triggering events or changes in circumstances had occurred as of fiscal year end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. Depending on the severity and duration of the pandemic, the Garden could experience a material impact to operations if further decisions to close the Garden are made by management or by the State of Arizona. The pandemic could impact the Garden's ability to serve members, obtain or renew memberships, receive contributions. The pandemic could also negatively impact the Garden's investment portfolio.

In April 2020, the Garden applied for and received a forgivable Paycheck Protection Loan of approximately \$1,374,000 as provided under the Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES" Act) and the loan was funded on April 13, 2020. Under the terms of the loan, the balance may be forgivable to the extent the proceeds are used for certain qualified costs for the 8 week period through June 2020 and that certain employment levels are maintained or certain safe harbor requirements are met. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount is due on April 13, 2021 and carries an interest rate of 1%. Monthly principal and interest payments are due beginning seven months after receipt of the proceeds. The Garden accounts for this agreement in accordance with FASB ASC 958-605 as a conditional contribution. As of September 30, 2020, the Garden estimates that they have satisfied the condition of the loan to qualify for full forgiveness. As a result, such forgiveness is included within contribution revenue in the accompanying consolidated statement of activities and change in net assets. A formal request for forgiveness will be submitted to the lender. However, there can be no assurance that such forgiveness will occur.

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

### (19) **Risks and uncertainties (continued)**

As of the date the financial statements were available to be issued, the Garden's operations have been reduced in accordance with State of Arizona guidelines, however due to the Garden's ability to create a safe admission process through online platforms, the Garden's cash flows have not been significantly negatively impacted. The Garden continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Garden could experience a material negative impact to consolidated operations, cash flow, and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

## **SUPPLEMENTARY INFORMATION**



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

We have audited the consolidated financial statements of ***Desert Botanical Garden, Inc. and Affiliates*** (collectively, the "Garden") as of and for the year ended September 30, 2020, and our report thereon dated January 22, 2021, which expresses an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and change in net assets on pages 37 and 38 are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and are not a required part of the consolidated financial statements. The consolidating 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 consolidating 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 be 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Mayer Hoffman McCann P.C.*

January 22, 2021

# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## SUPPLEMENTARY INFORMATION

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2020

#### ASSETS

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 6,432,858	\$ 739,685	\$ -	\$ 7,172,543
Investments	73,635	-	-	73,635
Contributions receivable, net	314,129	-	-	314,129
Other current assets	737,168	-	-	737,168
Intercompany receivable	263	-	(263)	-
<b>TOTAL CURRENT ASSETS</b>	<b>7,558,053</b>	<b>739,685</b>	<b>(263)</b>	<b>8,297,475</b>
CONTRIBUTIONS RECEIVABLE, net	56,939	-	-	56,939
PROPERTY AND EQUIPMENT, net	23,443,444	-	-	23,443,444
EQUIPMENT HELD FOR SALE	1,984	-	-	1,984
OTHER ASSETS	98,773	-	-	98,773
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	17,339,943	-	(17,339,943)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	325,185	-	-	325,185
Investments	386,798	-	-	386,798
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	74,027	18,276	-	92,303
Investments	-	16,025,964	-	16,025,964
Contributions receivable, net	-	88,014	-	88,014
Beneficial interest in remainder trust	-	345,000	-	345,000
Cash surrender value of life insurance policies	-	164,067	-	164,067
<b>TOTAL ASSETS</b>	<b>\$ 49,285,146</b>	<b>\$ 17,381,006</b>	<b>\$ (17,340,206)</b>	<b>\$ 49,325,946</b>

#### LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	\$ 101,710	\$ -	\$ -	\$ 101,710
Line of credit	1,500,000	-	-	1,500,000
Accounts payable and accrued liabilities	1,131,089	-	-	1,131,089
Deferred revenue	2,234,714	-	-	2,234,714
Annuity payment liability	2,950	5,600	-	8,550
Intercompany payable	-	263	(263)	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,970,463</b>	<b>5,863</b>	<b>(263)</b>	<b>4,976,063</b>
DEFERRED REVENUE, less current portion	214,940	-	-	214,940
ANNUITY PAYMENT LIABILITY, less current portion	21,973	35,200	-	57,173
LONG-TERM DEBT, less current portion	1,148,290	-	-	1,148,290
<b>TOTAL LIABILITIES</b>	<b>6,355,666</b>	<b>41,063</b>	<b>(263)</b>	<b>6,396,466</b>
<b>NET ASSETS</b>				
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Designated	4,612,935	-	-	4,612,935
Undesignated	19,415,940	-	-	19,415,940
NET ASSETS WITHOUT DONOR RESTRICTIONS	24,028,875	-	-	24,028,875
NET ASSETS WITH DONOR RESTRICTIONS	18,900,605	17,339,943	(17,339,943)	18,900,605
<b>TOTAL NET ASSETS</b>	<b>42,929,480</b>	<b>17,339,943</b>	<b>(17,339,943)</b>	<b>42,929,480</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,285,146</b>	<b>\$ 17,381,006</b>	<b>\$ (17,340,206)</b>	<b>\$ 49,325,946</b>

See Independent Auditors' Report on Supplementary Information



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

## SUPPLEMENTARY INFORMATION

### CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended September 30, 2020

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>SUPPORT AND REVENUE</b>				
Retail sales	\$ 986,923	\$ -	\$ -	\$ 986,923
Cost of retail sales	(236,955)	-	-	(236,955)
Gross profit on retail sales	749,968	-	-	749,968
Beverage sales	545,224	-	-	545,224
Cost of beverage sales	(92,480)	-	-	(92,480)
Gross profit on beverage sales	452,744	-	-	452,744
Total gross profit on retail and beverage sales	1,202,712	-	-	1,202,712
Contributions	5,380,498	5,500	(748,971)	4,637,027
Admissions	3,920,334	-	-	3,920,334
Memberships	3,240,581	-	-	3,240,581
Governmental contracts	430,603	-	-	430,603
Educational classes	153,557	-	-	153,557
Facility rental and concessions	446,728	-	-	446,728
Investment income (loss)	(71,024)	1,130,296	-	1,059,272
Change in beneficial interest in net assets of DBG Foundation	433,869	-	(433,869)	-
Other revenues and gains	22,841	49,054	-	71,895
Total support and revenue before special events	15,160,699	1,184,850	(1,182,840)	15,162,709
Special events revenue	2,122,861	-	-	2,122,861
Less costs of direct donor benefits	(390,742)	-	-	(390,742)
Gross profit on special events	1,732,119	-	-	1,732,119
<b>TOTAL SUPPORT AND REVENUE</b>	<b>16,892,818</b>	<b>1,184,850</b>	<b>(1,182,840)</b>	<b>16,894,828</b>
<b>EXPENSES</b>				
Program	9,881,657	-	-	9,881,657
General and administrative	2,735,382	748,971	(748,971)	2,735,382
Marketing, retail, visitor services	2,276,868	2,010	-	2,278,878
Fundraising	2,592,134	-	-	2,592,134
<b>TOTAL EXPENSES</b>	<b>17,486,041</b>	<b>750,981</b>	<b>(748,971)</b>	<b>17,488,051</b>
GAIN ON SALE OF PROPERTY AND EQUIPMENT	21,000	-	-	21,000
LOSS ON IMPAIRMENT OF EQUIPMENT HELD FOR SALE	(268,245)	-	-	(268,245)
<b>CHANGE IN NET ASSETS</b>	<b>(840,468)</b>	<b>433,869</b>	<b>(433,869)</b>	<b>(840,468)</b>
NET ASSETS, BEGINNING OF YEAR	43,769,948	16,906,074	(16,906,074)	43,769,948
NET ASSETS, END OF YEAR	<u>\$ 42,929,480</u>	<u>\$ 17,339,943</u>	<u>\$ (17,339,943)</u>	<u>\$ 42,929,480</u>