

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended September 30, 2021 and 2020

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

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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, 2021 and 2020, 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, 2021 and 2020, 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** changed its method of accounting for revenue from contracts with customers effective October 1, 2020. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

January 21, 2022

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,956,429	\$ 7,172,543
Investments	80,106	73,635
Contributions receivable, net	418,708	314,129
Other current assets	<u>879,496</u>	<u>737,168</u>
TOTAL CURRENT ASSETS	10,334,739	8,297,475
CONTRIBUTIONS RECEIVABLE, net, less current portion	18,564	56,939
PROPERTY AND EQUIPMENT, net	22,254,637	23,443,444
EQUIPMENT HELD FOR SALE	-	1,984
OTHER ASSETS	98,773	98,773
ASSETS RESTRICTED TO INVESTMENT IN LONG - LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	1,567,689	325,185
Investments	500,972	386,798
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	66,188	92,303
Investments	18,347,475	16,025,964
Contributions receivable, net	32,561	88,014
Beneficial interest in remainder trust	377,000	345,000
Cash surrender value of life insurance policies	<u>223,096</u>	<u>164,067</u>
TOTAL ASSETS	<u>\$ 53,821,694</u>	<u>\$ 49,325,946</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 100,365	\$ 101,710
Line of credit	-	1,500,000
Accounts payable and accrued liabilities	1,206,679	1,131,089
Deferred revenue	2,232,547	2,234,714
Annuity payment liability	<u>7,586</u>	<u>8,550</u>
TOTAL CURRENT LIABILITIES	3,547,177	4,976,063
DEFERRED REVENUE, less current portion	210,117	214,940
ANNUITY PAYMENT LIABILITY, less current portion	55,373	57,173
LONG-TERM DEBT, less current portion	<u>842,689</u>	<u>1,148,290</u>
TOTAL LIABILITIES	<u>4,655,356</u>	<u>6,396,466</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	1,504,631	1,592,415
Opportunity reserve	984,670	821,809
Opportunity reserve - DLS	76,041	96,031
Emergency reserve	<u>1,000,000</u>	<u>1,002,680</u>
Total designated	4,665,342	4,612,935
Undesignated	<u>21,936,673</u>	<u>19,415,940</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	26,602,015	24,028,875
NET ASSETS WITH DONOR RESTRICTIONS	<u>22,564,323</u>	<u>18,900,605</u>
TOTAL NET ASSETS	49,166,338	42,929,480
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,821,694</u>	<u>\$ 49,325,946</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Retail sales	\$ 1,617,311	\$ -	\$ 1,617,311
Cost of retail sales	(335,741)	-	(335,741)
Gross profit on retail sales	1,281,570	-	1,281,570
Beverage sales	301,040	-	301,040
Cost of beverage sales	(42,820)	-	(42,820)
Gross profit on beverage sales	258,220	-	258,220
Total gross profit on retail and beverage sales	1,539,790	-	1,539,790
Contributions	4,200,381	1,719,230	5,919,611
Admissions	5,804,242	-	5,804,242
Memberships	3,280,481	-	3,280,481
Governmental contracts	412,097	-	412,097
Educational classes	32,500	-	32,500
Facility rental and concessions	301,355	-	301,355
Investment income	170,929	2,941,702	3,112,631
Other revenues	18,655	91,028	109,683
Total support and revenue before special events	15,760,430	4,751,960	20,512,390
Special events revenue	1,535,067	-	1,535,067
Less costs of direct donor benefits	(260,033)	-	(260,033)
Gross profit on special events	1,275,034	-	1,275,034
NET ASSETS RELEASED FROM RESTRICTIONS	1,088,242	(1,088,242)	-
TOTAL SUPPORT AND REVENUE	18,123,706	3,663,718	21,787,424
EXPENSES			
Program	9,216,636	-	9,216,636
General and administrative	2,465,946	-	2,465,946
Marketing, retail, visitor services	1,960,280	-	1,960,280
Fundraising	2,085,089	-	2,085,089
TOTAL EXPENSES	15,727,951	-	15,727,951
GAIN ON SALE OF EQUIPMENT HELD FOR SALE	177,385	-	177,385
CHANGE IN NET ASSETS	2,573,140	3,663,718	6,236,858
NET ASSETS, BEGINNING OF YEAR	24,028,875	18,900,605	42,929,480
NET ASSETS, END OF YEAR	\$ 26,602,015	\$ 22,564,323	\$ 49,166,338

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
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	<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>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,672,659</u>	<u>(1,672,659)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>16,366,551</u>	<u>528,277</u>	<u>16,894,828</u>
EXPENSES			
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>
TOTAL EXPENSES	<u>17,488,051</u>	<u>-</u>	<u>17,488,051</u>
GAIN ON SALE OF PROPERTY AND EQUIPMENT	21,000	-	21,000
LOSS ON IMPAIRMENT OF EQUIPMENT HELD FOR SALE	<u>(268,245)</u>	<u>-</u>	<u>(268,245)</u>
CHANGE IN NET ASSETS	(1,368,745)	528,277	(840,468)
NET ASSETS, BEGINNING OF YEAR	<u>25,397,620</u>	<u>18,372,328</u>	<u>43,769,948</u>
NET ASSETS, END OF YEAR	<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 FUNCTIONAL EXPENSES

Year Ended September 30, 2021

	<u>Supporting Services</u>				<u>Total</u>
	<u>Program</u>	<u>General and Administrative</u>	<u>Marketing, Retail, Visitor Services</u>	<u>Fundraising</u>	
Salaries and Wages	\$ 4,444,565	\$ 1,272,166	\$ 876,931	\$ 1,171,704	\$ 7,765,366
Employee Related Expenses	979,155	233,520	183,162	273,498	1,669,335
Total Personnel Costs	5,423,720	1,505,686	1,060,093	1,445,202	9,434,701
Outside Services and Artist Fees	926,560	172,461	148,065	458,201	1,705,287
Advertising, Printing and Postage	70,607	28,206	309,383	47,398	455,594
Supplies and Plants	523,388	25,580	12,237	91,190	652,395
Rental and Lease	123,860	15,947	22,552	46,717	209,076
Merchant, Accounting and Permit Fees	5,391	409,189	569	25	415,174
Cost of Retail and Beverage Sales	378,561	-	-	-	378,561
Travel, Meals and Events	83,002	7,127	4,328	3,705	98,162
Utilities and Telephone	210,066	33,503	45,968	37,712	327,249
Repairs and Maintenance	253,501	26,618	34,603	10,647	325,369
Insurance	195,063	26,721	34,737	10,688	267,209
Other	305,134	64,724	92,506	133,563	595,927
Total before depreciation and amortization	8,498,853	2,315,762	1,765,041	2,285,048	14,864,704
Depreciation and Amortization	1,096,344	150,184	195,239	60,074	1,501,841
Total functional expenses	<u>\$ 9,595,197</u>	<u>\$ 2,465,946</u>	<u>\$ 1,960,280</u>	<u>\$ 2,345,122</u>	<u>\$ 16,366,545</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2020

	<u>Supporting Services</u>				<u>Total</u>
	<u>Program</u>	<u>General and Administrative</u>	<u>Marketing, Retail, Visitor Services</u>	<u>Fundraising</u>	
Salaries and Wages	\$ 4,594,668	\$ 1,395,788	\$ 1,051,024	\$ 1,367,414	\$ 8,408,894
Employee Related Expenses	985,014	251,287	204,930	300,405	1,741,636
Total Personnel Costs	5,579,682	1,647,075	1,255,954	1,667,819	10,150,530
Outside Services and Artist Fees	1,452,007	303,339	124,435	796,804	2,676,585
Advertising, Printing and Postage	95,552	82,972	464,519	44,243	687,286
Supplies and Plants	340,721	30,348	18,558	134,196	523,823
Rental and Lease	417,590	16,527	23,500	41,451	499,068
Merchant, Accounting and Permit Fees	5,277	351,312	-	1,708	358,297
Cost of Retail and Beverage Sales	329,435	-	-	-	329,435
Travel, Meals and Events	50,892	32,446	2,917	22,814	109,069
Utilities and Telephone	237,097	36,039	51,963	48,461	373,560
Repairs and Maintenance	111,680	11,889	17,205	5,382	146,156
Insurance	195,949	26,842	34,895	10,737	268,423
Other	253,233	40,158	81,566	146,687	521,644
Total before depreciation and amortization	9,069,115	2,578,947	2,075,512	2,920,302	16,643,876
Depreciation and Amortization	1,141,977	156,435	203,366	62,574	1,564,352
Total functional expenses	<u>\$ 10,211,092</u>	<u>\$ 2,735,382</u>	<u>\$ 2,278,878</u>	<u>\$ 2,982,876</u>	<u>\$ 18,208,228</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,236,858	\$ (840,468)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,501,841	1,564,352
Change in discount on contributions receivable	(17,163)	(10,283)
Change in cash surrender value of life insurance	(59,029)	(18,454)
Change in value of split-interest agreements	(12,100)	(6,684)
Amortization of deferred gift shop liability	(45,550)	(45,550)
Realized gains on investments	(769,524)	(499,031)
Unrealized gains on investments	(2,245,694)	(344,174)
Gain on sale of property and equipment	-	(21,000)
Gain on sale of equipment held for sale	(177,385)	-
Loss on impairment of equipment held for sale	-	268,245
Contributions restricted for endowment	(14,215)	(5,500)
Contributions restricted for investment in long-lived assets	(921,555)	(386,500)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	(49,041)	229,448
Other current assets	(142,328)	72,593
Beneficial interest in remainder trust	(25,450)	(28,450)
Increase (decrease) in:		
Accounts payable and accrued liabilities	75,590	(542,278)
Deferred revenue	38,560	(457,970)
Annuity payment liability	2,786	(2,035)
Net cash provided by (used in) operating activities	<u>3,376,601</u>	<u>(1,073,739)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment held for sale	180,104	36,264
Proceeds from sale of investments	3,778,763	2,687,858
Purchase of investments	(3,205,701)	(2,118,767)
Purchase of property and equipment	(313,769)	(1,011,476)
Net cash provided by (used in) investing activities	<u>439,397</u>	<u>(406,121)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws (payments) on line of credit	(1,500,000)	1,500,000
Proceeds from contributions restricted for endowment	69,668	20,916
Proceeds from contributions restricted for investment in long-lived assets	921,555	386,500
Proceeds from issuance of long-term debt	-	386,639
Payments on long-term debt	(306,946)	(270,000)
Net cash (used in) provided by financing activities	<u>(815,723)</u>	<u>2,024,055</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	3,000,275	544,195
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	<u>7,590,031</u>	<u>7,045,836</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	<u>\$ 10,590,306</u>	<u>\$ 7,590,031</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 59,848</u>	<u>\$ 57,557</u>
Cash and cash equivalents	\$ 8,956,429	\$ 7,172,543
Cash and cash equivalents restricted to investment in long-lived assets and improvements	1,567,689	325,185
Cash and cash equivalents restricted for endowment	66,188	92,303
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 10,590,306</u>	<u>\$ 7,590,031</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(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 92,000 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, 2021, 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 years ended September 30, 2021 or 2020. The Foundation distributed approximately \$680,000 and \$749,000 to DBG as a draw on accumulated investment earnings for the years ended September 30, 2021 and 2020, 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, 2021, and had no assets or liabilities as of September 30, 2021.

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, 2021 and 2020

(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, 2021 and 2020, the Garden's uninsured cash balances totaled approximately \$9,868,000 and \$6,838,000, 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, 2021, 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 \$67,000 and \$160,000 at September 30, 2021 and 2020, 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 \$10,000 and \$0 at September 30, 2021 and 2020, respectively, and are included in contributions receivable in the accompanying consolidated statements of financial position. Bequests receivable at September 30, 2021 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, 2021 and 2020

(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, 2021 and 2020 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 \$37,000 and \$44,000 at the years ended September 30, 2021 and 2020, 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"). 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, 2021 and 2020

(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, 2021 and 2020, F&F, LLC had no activity and as of September 30, 2021 and 2020, 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, 2021 and 2020

(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 \$223,000 and \$164,000 at September 30, 2021 and 2020, 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 at September 30, 2021 and 2020 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 \$59,000 and \$18,000 are included in other revenues in the accompanying consolidated statements of activities and change in net assets for the years ended September 30, 2021 and 2020, 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, 2021 and 2020

(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 Garden 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 606, *Contracts with Customers*, 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. 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. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to contributions without donor 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, 2021 and 2020

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

Revenue from contracts with customers – The Garden has multiple revenue streams that are accounted for as exchange transactions described below.

Memberships – Members can join the Garden for annual periods and there are various membership levels for a member to choose from that provide different benefits. The Garden has allocated the total membership transaction price to the benefits available at each level using the residual value approach. The residual value, if any, is recognized as a contribution at the time the membership begins. The remaining identified transaction price is associated with performance obligations that are recognized over time as the Garden stands ready to deliver and includes admission to the Garden. Members generally pay the annual fee in advance. Unearned membership fees are included in deferred revenue in the consolidated statements of financial position.

Admissions – Admissions are reported at an amount that reflects the consideration to which the Garden expects to be entitled in exchange for providing services to their customers. Admission fees grant the customer the right to enter the Garden for the day. As an admission ticket is for a given day, the Garden recognizes the revenue at the point in time in which entry is granted, regardless of whether the customer actually enters the Garden. Customers may pay in advance of or on the date of entry, generally resulting in contract liabilities. Unearned admissions revenue is included in deferred revenue in the consolidated statements of financial position.

Retail sales, beverage sales, educational classes, facility rental and concessions – Revenues are reported at an amount that reflects the consideration to which the Garden expects to be entitled in to in exchange for the goods and services provided. Amounts received are recorded as revenue at the point in time the goods or services are transferred to the customer. Payment is due at the time of the sale or in advance. Unearned revenue is included in deferred revenue in the consolidated statements of financial position.

Substantially all of the Garden's contracts with customers include a single performance obligation to transfer the promised good or service. The Garden does not have significant financing components as payment is generally received in a customary time frame from the customers. The contracts do not contain a material amount of variable consideration. At contract inception, the Garden evaluates the probability of collecting the transaction price based on the history of payments by the customers.

Contract liabilities, which are classified within deferred revenue in the accompanying consolidated statements of financial position, are as follows at September 30:

	<u>2021</u>	<u>2020</u>
Unearned membership revenue	\$ 1,513,856	\$ 1,552,898
Unearned admissions revenue	3,562	74,782
Unearned education and facility rental revenue	231,544	174,601
Unearned special event revenue	119,948	23,342
Total contract liabilities	<u>\$ 1,868,910</u>	<u>\$ 1,825,623</u>

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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

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

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, 2021:

	<u>Contributed Services</u>	<u>Supplies and Plants</u>	<u>Advertising, Printing, and Postage</u>	<u>Total</u>
Program	\$ 133,536	\$ 39,210	\$ -	\$ 172,746
General and Administrative	3,000	-	213,597	216,597
Marketing, Retail, Visitor Services	37,015	21,844	-	58,859
Fundraising	564	-	-	564
Total in-kind expense	<u>\$ 174,115</u>	<u>\$ 61,054</u>	<u>\$ 213,597</u>	<u>\$ 448,766</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, 2020:

	<u>Contributed Services</u>	<u>Supplies and Plants</u>	<u>Advertising, Printing, and Postage</u>	<u>Total</u>
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>

Contributed services above include approximately \$133,000 and \$176,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets for the years ended September 30, 2021 and 2020, 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.

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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

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

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 \$310,000 (including in-kind advertising described above of approximately \$214,000) for the year ended September 30, 2021, and has been included in advertising, printing and postage in the accompanying consolidated statements of functional expenses. For the year ended September 30, 2020, advertising expense totaled approximately \$484,000 (including in-kind advertising of approximately \$178,000).

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.

DBG and the Foundation file information returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of September 30, 2021, 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

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

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. The Garden adopted the standard as of October 1, 2020, using a modified retrospective approach to contracts that were not completed as of this date. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets.

The Garden's revenue from contracts with customers is generated from programs and fees as well as the sale of products to customers. These revenue streams predominantly contain a single delivery element and revenue is recognized at a single point in time in which ownership, risks, and rewards transfer. One exception is membership revenue, which is recognized over the membership period. Upon adoption of ASC 606, the Garden has not identified a change in revenue recognition and there is no effect of adoption recognized as of October 1, 2020.

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.

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 leases 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 consolidated 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, 2021 in accordance with ASU No. 2020-05. 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

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

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 has adopted the standard effective October 1, 2020.

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 has adopted the standard effective October 1, 2020 and as a result, expanded disclosures around collections in Note 6.

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 21, 2022 which is the date the consolidated financial statements were available to be issued.

(2) Contributions receivable

Contributions receivable consisted of the following at September 30:

	<u>2021</u>	<u>2020</u>
Promises to give - restricted for a specified purpose		
The Saguaro Initiative Campaign	\$ 20,000	\$ 32,000
Endowment	40,833	110,000
Other programs	-	30,000
Promises to give - without donor restrictions	408,708	313,953
Bequests - without donor restrictions	10,000	-
Total contributions receivable	479,541	485,953
Less: unamortized discount	(9,708)	(26,871)
Contributions receivable, net	<u>\$ 469,833</u>	<u>\$ 459,082</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(2) Contributions receivable (continued)

The estimated cash flows for contributions receivable were discounted over the collection period using management determined risk-adjusted discount rates which ranged from 0.08% to 6.3%. Contributions receivable (before the unamortized discount and any valuation allowance) are due as follows at September 30:

	2021	2020
Contributions receivable due in less than one year	\$ 418,708	\$ 314,129
Contributions receivable due in one to five years	20,000	61,824
Contributions receivable due thereafter	40,833	110,000
Total contributions receivable	\$ 479,541	\$ 485,953

Contributions receivable from employees and members of the Board of Trustees were \$3,750 and \$15,733 as of September 30, 2021 and 2020, respectively.

(3) Investments

Investments consist of the following at September 30:

	2021	2020
Mutual Funds - Equity		
Domestic	\$ 9,258,690	\$ 8,032,470
International	3,708,973	2,888,298
Mutual Funds - Bonds	5,257,324	4,523,670
Hedge Funds	703,566	1,041,959
Total	\$ 18,928,553	\$ 16,486,397

Investments include amounts held for endowment, investment in long-lived assets and amounts held in short-term investments available for normal operating expenses. Accordingly, investments are classified as both current and non-current assets in the accompanying consolidated statements of financial position.

The following summarizes the investment income for the year ended September 30, 2021:

	Without donor restrictions	With donor restrictions	Total
Interest and dividends	\$ 352	\$ 197,641	\$ 197,993
Unrealized gains	170,577	2,075,117	2,245,694
Realized gains	-	769,524	769,524
Brokerage fees	-	(100,580)	(100,580)
Net Investment income	\$ 170,929	\$ 2,941,702	\$ 3,112,631

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(3) Investments (continued)

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 (loss)	<u>\$ (71,024)</u>	<u>\$ 1,130,296</u>	<u>\$ 1,059,272</u>

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

(4) Property and equipment

Property and equipment consists of the following at September 30:

	<u>2021</u>	<u>2020</u>
Buildings and building improvements	\$ 21,747,460	\$ 21,631,922
Ground installations	17,154,854	17,155,187
Computer equipment and technology	2,132,123	2,093,988
Office furniture, fixtures and equipment	1,381,714	1,381,714
Master plan for buildings and exhibits	583,268	583,268
Machinery and equipment	929,546	855,227
Vehicles	149,967	149,967
Construction in progress	<u>672,756</u>	<u>587,830</u>
Total property and equipment	44,751,688	44,439,103
Less accumulated depreciation and amortization	<u>(22,497,051)</u>	<u>(20,995,659)</u>
Net property and equipment	<u>\$ 22,254,637</u>	<u>\$ 23,443,444</u>

Depreciation and amortization expense was \$1,501,841 and \$1,564,352 for the years ended September 30, 2021 and 2020, respectively.

Construction in progress at September 30, 2021 and 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. The project is being funded largely through contributions.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(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 \$0 and \$268,245 during the years ended September 30, 2021 and 2020, 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. In fiscal 2021, the equipment was sold for approximately \$179,000 and a gain on sale of approximately \$177,000 was recognized.

(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 2021 for the annual Consumer Price Index ("CPI"), the Garden estimates that the value of each unprocessed specimen is approximately \$27 and the processed specimen value is approximately \$47, for an estimated total of herbarium specimens in the approximate range of \$4,444,000 to \$4,502,000. 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. The Garden's policy is to not dispose or otherwise sell collection items, however should such a need arise, the Garden's policy is to use the proceeds from deaccessioned collection items for the acquisition of new collection items and/or the direct care of existing collections. The Garden defines direct care as an investment that enhances the life, usefulness, or quality of a garden's collections. During the years ended September 30, 2021 and 2020, 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%.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(7) Charitable gift annuities (continued)

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, 2021 and 2020 (not including cash payments to beneficiaries) was an increase of approximately \$12,000 and \$7,000, respectively.

(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% (3.14% and 3.15% at September 30, 2021 and 2020, respectively), and are collateralized by substantially all the assets of DBG. The line of credit matured in June 2021 and was extended through June 2022. As of September 30, 2020, the Garden had \$1,500,000 outstanding under the line of credit. No amounts were outstanding under the line of credit as of September 30, 2021. Interest expense incurred was \$17,833 and \$31,311 for the years ended September 30, 2021 and 2020, 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, 2021 and 2020. 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. The balance was paid in full during the year ended September 30, 2021. Interest expense incurred was \$7,511 and \$17,866 for the years ended September 30, 2021 and 2020, 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 \$37,255 and \$8,380 for the years ended September 30, 2021 and 2020, respectively.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(9) Long term debt (continued)

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

Years Ending September 30.

2022	\$	100,365
2023		103,934
2024		107,631
2025		111,459
2026		115,423
Thereafter		<u>404,242</u>
Total future maturities		943,054
Less current portion		<u>(100,365)</u>
Total future maturities, less current portion	\$	<u><u>842,689</u></u>

(10) Net assets with donor restrictions

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

	2021	2020
Subject to expenditure for a specified purpose		
The Saguaro Initiative - Undesignated	\$ 119,142	\$ 114,142
Community engagement	527,769	149,906
Education programs	232,773	176,213
Research	293,765	288,723
Other Garden exhibits / improvements	1,472,589	565,034
Other purpose restrictions	<u>158,101</u>	<u>211,107</u>
Total net assets restricted for a specified purpose	2,804,139	1,505,125
Subject to expenditure over time		
Earnings on endowments	<u>4,835,251</u>	<u>2,575,791</u>
Subject to restriction in perpetuity		
Contributions receivable, net	32,561	88,014
Cash surrender value of life insurance	223,096	164,067
Beneficial interest in remainder trust	377,000	345,000
Assets held under endowment	<u>14,292,276</u>	<u>14,222,608</u>
Total net assets held in perpetuity	<u>14,924,933</u>	<u>14,819,689</u>
Total net assets with donor restrictions	<u><u>\$ 22,564,323</u></u>	<u><u>\$ 18,900,605</u></u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(11) Net assets released from donor restrictions

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

	2021	2020
Satisfaction of purpose restrictions:		
The Saguaro Initiative - Undesignated	\$ -	\$ 196,000
Community engagement	149,906	435,366
Education programs	7,439	65,258
Research	55,243	125,749
Other Garden exhibits / improvements	14,000	-
Other purpose restrictions	179,412	99,305
Total satisfaction of purpose restrictions	406,000	921,678
Expiration of time restrictions	682,242	750,981
Total net assets released from restrictions	\$ 1,088,242	\$ 1,672,659

(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 were as follows:

	2021	2020
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	\$1,504,631	\$1,592,415
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	\$984,670	\$821,809
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	\$76,041	\$96,031
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	\$1,000,000	\$1,002,680
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, 2021 and 2020

(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 with donor restrictions composition by type of fund as of September 30 were as follows:

	<u>2021</u>	<u>2020</u>
Donor restricted endowments - held in perpetuity	\$ 14,292,276	\$ 14,222,608
Accumulated earnings on donor endowments subject to spending policies	<u>4,835,251</u>	<u>2,575,791</u>
Endowment net assets	<u>\$ 19,127,527</u>	<u>\$ 16,798,399</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(13) Endowments (continued)

The changes in endowment net assets with donor restrictions for the years ended September 30 are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 16,798,399	\$ 16,398,168
Investment return:		
Investment income	97,061	193,396
Net appreciation	2,844,641	936,900
Proceeds from contributions and collections	69,668	20,916
Appropriations of endowment assets for expenditure	<u>(682,242)</u>	<u>(750,981)</u>
Endowment net assets, end of year	<u>\$ 19,127,527</u>	<u>\$ 16,798,399</u>

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, 2021 and 2020. 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 4.25% 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 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.

In July 2021, the Foundation's Board of Directors approved appropriation for expenditure of \$713,864 to be distributed in October 2021 for use in fiscal year 2022. 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, 2021 or 2020.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(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 \$13,000. In the normal course of business, operating leases are generally renewed or replaced by other leases.

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

Years Ending September 30.

2022	\$ 101,092
2023	86,245
2024	81,955
2025	<u>74,422</u>
Total minimum future rental payments	<u>\$ 343,714</u>

Lease expense for the year ended September 30, 2021 and 2020 (net of amortized lease incentives totaling approximately \$0 and \$16,750) was approximately \$150,500 and \$150,100, 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 approximately \$363,600 and \$409,000 subject to potential repayment at September 30, 2021 and 2020, 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, 2021 and 2020

(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, 2021:

	Level 1	Level 2	Level 3	Total
<u>Recurring fair value measurements</u>				
Mutual Funds - Equity				
Domestic	\$ 9,258,690	\$ -	\$ -	\$ 9,258,690
International	3,708,973	-	-	3,708,973
Mutual Funds - Bonds	5,257,324	-	-	5,257,324
Total investments	18,224,987	-	-	18,224,987
Beneficial interest in remainder trust	-	-	377,000	377,000
Total recurring fair value measurements	\$ 18,224,987	\$ -	\$ 377,000	\$ 18,601,987

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:

	Level 1	Level 2	Level 3	Total
<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	4,523,670	-	-	4,523,670
Total investments	15,444,438	-	-	15,444,438
Beneficial interest in remainder trust	-	-	345,000	345,000
Total recurring fair value measurements	\$ 15,444,438	\$ -	\$ 345,000	\$ 15,789,438
<u>Nonrecurring fair value measurement</u>				
Equipment held for sale		\$ 1,984		

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(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 \$32,000 and \$35,000 for the years ended September 30, 2021 and 2020, 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 investments are multi-fund pools 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 \$703,566 and \$1,041,959 as of September 30, 2021 and 2020, 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 approximately \$222,000 and \$210,000 for the years ended September 30, 2021 and 2020, respectively.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(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 \$0 and \$40,000 during the years ended September 30, 2021 and 2020, respectively. Distributions from the Non-Qualified 457(f) Plans during the years ended September 30, 2021 and 2020, totaled approximately \$130,000 and \$204,000, respectively. As of September 30, 2021 and 2020, approximately \$0 and \$130,000 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. At September 30, 2021 and 2020, while the Garden has set aside approximately \$0 and \$130,000, respectively, 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. At September 30, 2021 and 2020, while the Garden has set aside approximately \$187,000 and \$169,000, respectively, 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, 2021 and 2020, the Garden received contributions from one donor that represented approximately 13% and 10% of total contributions for the year, respectively.

(18) Liquidity and availability of resources

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 10,590,306	\$ 7,590,031
Contributions receivable, net	469,833	459,082
Accounts receivable, net	67,000	160,000
Investments	<u>18,928,553</u>	<u>16,486,397</u>
Total financial assets available within one year	30,055,692	24,695,510
Less: Amounts unavailable for general expenditures within one year:		
Net assets with donor restrictions	21,964,227	18,900,605
Designated by the Board of Trustees	<u>4,665,342</u>	<u>4,612,935</u>
Total amounts unavailable for general expenditure within one year	<u>26,629,569</u>	<u>23,513,540</u>
Financial assets available to meet cash needs for general expenditure within one year after board designations	<u>\$ 3,426,123</u>	<u>\$ 1,181,970</u>

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, 2021 and 2020

(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 a bank line of credit.

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, received 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. The Garden received formal forgiveness from the Small Business Association in June 2021.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

(19) Risks and uncertainties (continued)

In February 2021, the Garden applied for and received a forgivable Paycheck Protection Loan of approximately \$1,292,000 as provided under the CARES Act and the loan was funded on February 1, 2021. 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 March 2021 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 2022 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, 2021, 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.

As of the date the financial statements were available to be issued, the Garden has been operating in accordance with State of Arizona guidelines. The Garden's cash flows have not been significantly negatively impacted due to the Garden's ability to create a safe admission process through online platforms. The Garden continues to closely monitor the current federal and local mandates regarding the pandemic. 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, 2021, and our report thereon dated January 21, 2022, 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 35 and 36 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 21, 2022

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2021

ASSETS

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 8,261,030	\$ 695,399	\$ -	\$ 8,956,429
Investments	80,106	-	-	80,106
Contributions receivable, net	418,708	-	-	418,708
Other current assets	879,496	-	-	879,496
Intercompany receivable	<u>1,873</u>	<u>-</u>	<u>(1,873)</u>	<u>-</u>
TOTAL CURRENT ASSETS	9,641,213	695,399	(1,873)	10,334,739
CONTRIBUTIONS RECEIVABLE, net	18,564	-	-	18,564
PROPERTY AND EQUIPMENT, net	22,254,637	-	-	22,254,637
OTHER ASSETS	98,773	-	-	98,773
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	19,700,846	-	(19,700,846)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	1,567,689	-	-	1,567,689
Investments	<u>500,972</u>	<u>-</u>	<u>-</u>	<u>500,972</u>
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	-	66,188	-	66,188
Investments	-	18,347,475	-	18,347,475
Contributions receivable, net	-	32,561	-	32,561
Beneficial interest in remainder trust	-	377,000	-	377,000
Cash surrender value of life insurance policies	<u>-</u>	<u>223,096</u>	<u>-</u>	<u>223,096</u>
TOTAL ASSETS	<u>\$ 53,782,694</u>	<u>\$ 19,741,719</u>	<u>\$ (19,702,719)</u>	<u>\$ 53,821,694</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Current portion of long-term debt	\$ 100,365	\$ -	\$ -	\$ 100,365
Accounts payable and accrued liabilities	1,206,679	-	-	1,206,679
Deferred revenue	2,232,547	-	-	2,232,547
Annuity payment liability	1,986	5,600	-	7,586
Intercompany payable	<u>-</u>	<u>1,873</u>	<u>(1,873)</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	3,541,577	7,473	(1,873)	3,547,177
DEFERRED REVENUE, less current portion	210,117	-	-	210,117
ANNUITY PAYMENT LIABILITY, less current portion	21,973	33,400	-	55,373
LONG-TERM DEBT, less current portion	<u>842,689</u>	<u>-</u>	<u>-</u>	<u>842,689</u>
TOTAL LIABILITIES	<u>4,616,356</u>	<u>40,873</u>	<u>(1,873)</u>	<u>4,655,356</u>
NET ASSETS				
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Designated	4,665,342	-	-	4,665,342
Undesignated	<u>21,936,673</u>	<u>-</u>	<u>-</u>	<u>21,936,673</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	26,602,015	-	-	26,602,015
NET ASSETS WITH DONOR RESTRICTIONS	<u>22,564,323</u>	<u>19,700,846</u>	<u>(19,700,846)</u>	<u>22,564,323</u>
TOTAL NET ASSETS	<u>49,166,338</u>	<u>19,700,846</u>	<u>(19,700,846)</u>	<u>49,166,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,782,694</u>	<u>\$ 19,741,719</u>	<u>\$ (19,702,719)</u>	<u>\$ 53,821,694</u>

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, 2021

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE				
Retail sales	\$ 1,617,311	\$ -	\$ -	\$ 1,617,311
Cost of retail sales	<u>(335,741)</u>	<u>-</u>	<u>-</u>	<u>(335,741)</u>
Gross profit on retail sales	<u>1,281,570</u>	<u>-</u>	<u>-</u>	<u>1,281,570</u>
Beverage sales	301,040	-	-	301,040
Cost of beverage sales	<u>(42,820)</u>	<u>-</u>	<u>-</u>	<u>(42,820)</u>
Gross profit on beverage sales	<u>258,220</u>	<u>-</u>	<u>-</u>	<u>258,220</u>
Total gross profit on retail and beverage sales	1,539,790	-	-	1,539,790
Contributions	6,585,528	14,215	(680,132)	5,919,611
Admissions	5,804,242	-	-	5,804,242
Memberships	3,280,481	-	-	3,280,481
Governmental contracts	412,097	-	-	412,097
Educational classes	32,500	-	-	32,500
Facility rental and concessions	301,355	-	-	301,355
Investment income	170,929	2,941,702	-	3,112,631
Change in beneficial interest in net assets of DBG Foundation	2,360,903	-	(2,360,903)	-
Other revenues	<u>22,455</u>	<u>87,228</u>	<u>-</u>	<u>109,683</u>
Total support and revenue before special events	<u>20,510,280</u>	<u>3,043,145</u>	<u>(3,041,035)</u>	<u>20,512,390</u>
Special events revenue	1,535,067	-	-	1,535,067
Less costs of direct donor benefits	<u>(260,033)</u>	<u>-</u>	<u>-</u>	<u>(260,033)</u>
Gross profit on special events	<u>1,275,034</u>	<u>-</u>	<u>-</u>	<u>1,275,034</u>
TOTAL SUPPORT AND REVENUE	<u>21,785,314</u>	<u>3,043,145</u>	<u>(3,041,035)</u>	<u>21,787,424</u>
EXPENSES				
Program	9,216,636	-	-	9,216,636
General and administrative	2,465,946	680,132	(680,132)	2,465,946
Marketing, retail, visitor services	1,958,170	2,110	-	1,960,280
Fundraising	<u>2,085,089</u>	<u>-</u>	<u>-</u>	<u>2,085,089</u>
TOTAL EXPENSES	<u>15,725,841</u>	<u>682,242</u>	<u>(680,132)</u>	<u>15,727,951</u>
GAIN ON SALE OF EQUIPMENT HELD FOR SALE	<u>177,385</u>	<u>-</u>	<u>-</u>	<u>177,385</u>
CHANGE IN NET ASSETS	6,236,858	2,360,903	(2,360,903)	6,236,858
NET ASSETS, BEGINNING OF YEAR	<u>42,929,480</u>	<u>17,339,943</u>	<u>(17,339,943)</u>	<u>42,929,480</u>
NET ASSETS, END OF YEAR	<u>\$ 49,166,338</u>	<u>\$ 19,700,846</u>	<u>\$ (19,700,846)</u>	<u>\$ 49,166,338</u>