

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended September 30, 2022 and 2021

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

Opinion

We have audited the consolidated financial statements of ***Desert Botanical Garden, Inc. and Affiliates*** (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Mayer Hoffman McCann P.C.

January 25, 2023

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,253,640	\$ 8,956,429
Investments	62,882	80,106
Contributions receivable, net	4,291,986	418,708
Other current assets	<u>675,028</u>	<u>879,496</u>
TOTAL CURRENT ASSETS	23,283,536	10,334,739
CONTRIBUTIONS RECEIVABLE, net, less current portion	645,886	18,564
PROPERTY AND EQUIPMENT, net	21,628,873	22,254,637
OTHER ASSETS	98,957	98,773
ASSETS RESTRICTED TO INVESTMENT IN LONG - LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	3,478,417	1,567,689
Investments	552,992	500,972
Contributions receivable, net	3,258,083	-
Construction in process	101,578	-
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	127,004	66,188
Investments	14,048,272	18,347,475
Contributions receivable, net	1,728	32,561
Beneficial interest in remainder trust	274,000	377,000
Cash surrender value of life insurance policies	<u>209,444</u>	<u>223,096</u>
TOTAL ASSETS	<u>\$ 67,708,770</u>	<u>\$ 53,821,694</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 103,934	\$ 100,365
Accounts payable and accrued liabilities	1,622,332	1,206,679
Deferred revenue	3,022,905	2,232,547
Current portion of annuity payment liability	<u>8,550</u>	<u>7,586</u>
TOTAL CURRENT LIABILITIES	4,757,721	3,547,177
DEFERRED REVENUE, less current portion	157,393	210,117
ANNUITY PAYMENT LIABILITY, less current portion	51,553	55,373
LONG-TERM DEBT, less current portion	<u>738,755</u>	<u>842,689</u>
TOTAL LIABILITIES	<u>5,705,422</u>	<u>4,655,356</u>
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Designated by the Board of Trustees		
Huizingh working capital fund	2,000,000	1,100,000
Asset replacement reserve	4,466,623	1,504,631
Opportunity reserve	2,003,185	984,670
Opportunity reserve - DLS	1,002	76,041
Emergency reserve	<u>2,000,559</u>	<u>1,000,000</u>
Total designated	10,471,369	4,665,342
Undesignated	<u>24,637,829</u>	<u>21,936,673</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	35,109,198	26,602,015
NET ASSETS WITH DONOR RESTRICTIONS	<u>26,894,150</u>	<u>22,564,323</u>
TOTAL NET ASSETS	62,003,348	49,166,338
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 67,708,770</u>	<u>\$ 53,821,694</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Retail sales	\$ 2,079,722	\$ -	\$ 2,079,722
Cost of retail sales	(189,136)	-	(189,136)
Gross profit on retail sales	1,890,586	-	1,890,586
Beverage sales	987,072	-	987,072
Cost of beverage sales	(152,314)	-	(152,314)
Gross profit on beverage sales	834,758	-	834,758
Total gross profit on retail and beverage sales	2,725,344	-	2,725,344
Contributions			
Contributions of cash and other financial assets	3,912,352	9,224,546	13,136,898
In-kind contributions	604,072	-	604,072
Admissions	14,190,869	-	14,190,869
Memberships	4,379,435	-	4,379,435
Governmental contracts	364,263	-	364,263
Educational classes	49,010	-	49,010
Facility rental and concessions	581,710	-	581,710
Investment loss	(71,348)	(3,539,058)	(3,610,406)
Other	(3,973)	(116,652)	(120,625)
Total support and revenue before special events	26,731,734	5,568,836	32,300,570
Special events revenue	3,776,228	-	3,776,228
Less costs of direct donor benefits	(820,609)	-	(820,609)
Gross profit on special events	2,955,619	-	2,955,619
NET ASSETS RELEASED FROM RESTRICTIONS	1,239,009	(1,239,009)	-
TOTAL SUPPORT AND REVENUE	30,926,362	4,329,827	35,256,189
EXPENSES			
Program	13,177,297	-	13,177,297
General and administrative	2,909,817	-	2,909,817
Marketing, retail, visitor services	3,159,838	-	3,159,838
Fundraising	3,165,376	-	3,165,376
TOTAL EXPENSES	22,412,328	-	22,412,328
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	(6,851)	-	(6,851)
CHANGE IN NET ASSETS	8,507,183	4,329,827	12,837,010
NET ASSETS, BEGINNING OF YEAR	26,602,015	22,564,323	49,166,338
NET ASSETS, END OF YEAR	\$ 35,109,198	\$ 26,894,150	\$ 62,003,348

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Retail sales	\$ 1,617,311	\$ -	\$ 1,617,311
Cost of retail sales	<u>(335,741)</u>	<u>-</u>	<u>(335,741)</u>
Gross profit on retail sales	<u>1,281,570</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>(42,820)</u>
Gross profit on beverage sales	<u>258,220</u>	<u>-</u>	<u>258,220</u>
Total gross profit on retail and beverage sales	1,539,790	-	1,539,790
Contributions			
Contributions of cash and other financial assets	3,751,615	1,719,230	5,470,845
In-kind contributions	448,766	-	448,766
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	<u>18,655</u>	<u>91,028</u>	<u>109,683</u>
Total support and revenue before special events	<u>15,760,430</u>	<u>4,751,960</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>(260,033)</u>
Gross profit on special events	<u>1,275,034</u>	<u>-</u>	<u>1,275,034</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,088,242</u>	<u>(1,088,242)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>18,123,706</u>	<u>3,663,718</u>	<u>21,787,424</u>
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	<u>2,085,089</u>	<u>-</u>	<u>2,085,089</u>
TOTAL EXPENSES	<u>15,727,951</u>	<u>-</u>	<u>15,727,951</u>
GAIN ON SALE OF EQUIPMENT HELD FOR SALE	<u>177,385</u>	<u>-</u>	<u>177,385</u>
CHANGE IN NET ASSETS	2,573,140	3,663,718	6,236,858
NET ASSETS, BEGINNING OF YEAR	<u>24,028,875</u>	<u>18,900,605</u>	<u>42,929,480</u>
NET ASSETS, END OF YEAR	<u>\$ 26,602,015</u>	<u>\$ 22,564,323</u>	<u>\$ 49,166,338</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2022

	Supporting Services				Total
	Program	General and Administrative	Marketing, Retail, Visitor Services	Fundraising	
Salaries and wages	\$ 5,596,603	\$ 1,051,531	\$ 1,366,381	\$ 2,036,763	\$ 10,051,278
Employee related expenses	<u>1,175,583</u>	<u>176,961</u>	<u>261,411</u>	<u>431,596</u>	<u>2,045,551</u>
Total personnel costs	6,772,186	1,228,492	1,627,792	2,468,359	12,096,829
Outside services, and artist fees	2,799,240	434,627	263,325	789,157	4,286,349
Advertising, printing, and postage	86,833	30,473	694,260	46,505	858,071
Supplies and plants	500,228	21,600	32,365	253,280	807,473
Rental and lease	169,372	15,249	28,757	78,355	291,733
Merchant, accounting, and permit fees	453,895	811,178	11,276	15,106	1,291,455
Cost of retail and beverage sales	341,450	-	-	-	341,450
Travel, meals and events	164,180	59,208	8,548	16,039	247,975
Utilities and telephone	223,920	31,499	55,213	42,970	353,602
Repairs and maintenance	310,731	40,578	52,712	16,219	420,240
Insurance	243,767	33,393	43,410	13,357	333,927
Other	<u>386,441</u>	<u>57,423</u>	<u>152,255</u>	<u>188,199</u>	<u>784,318</u>
Total before depreciation and amortization	12,452,243	2,763,720	2,969,913	3,927,546	22,113,422
Depreciation and amortization	<u>1,066,504</u>	<u>146,097</u>	<u>189,925</u>	<u>58,439</u>	<u>1,460,965</u>
Total Functional Expenses	<u>\$ 13,518,747</u>	<u>\$ 2,909,817</u>	<u>\$ 3,159,838</u>	<u>\$ 3,985,985</u>	<u>\$ 23,574,387</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2021

	Supporting Services				Total
	Program	General and Administrative	Marketing, Retail, Visitor Services	Fundraising	
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	\$ 9,595,197	\$ 2,465,946	\$ 1,960,280	\$ 2,345,122	\$ 16,366,545

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,837,010	\$ 6,236,858
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,460,965	1,501,841
Change in discount on contributions receivable	415,468	(17,163)
Change in cash surrender value of life insurance	13,652	(59,029)
Change in value of split-interest agreements	(5,550)	(12,100)
Amortization of deferred gift shop liability	(45,550)	(45,550)
Realized gains on investments	(1,561,635)	(769,524)
Unrealized losses (gains) on investments	5,460,908	(2,245,694)
Loss on disposal of property and equipment	6,851	-
Gain on sale of equipment held for sale	-	(177,385)
Contributions restricted for endowment	(3,278)	(14,215)
Contributions restricted for investment in long-lived assets	(7,735,719)	(921,555)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	(2,861,184)	(49,041)
Other current assets	204,468	(142,328)
Beneficial interest in remainder trust	103,000	(25,450)
Other assets	(184)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	415,653	75,590
Deferred revenue	783,184	38,560
Annuity payment liability	2,694	2,786
Net cash provided by operating activities	<u>9,490,753</u>	<u>3,376,601</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment held for sale	-	180,104
Proceeds from sale of investments	27,440,530	3,778,763
Purchase of investments	(27,075,396)	(3,205,701)
Purchase of property and equipment	(943,630)	(313,769)
Net cash (used in) provided by investing activities	<u>(578,496)</u>	<u>439,397</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws (payments) on line of credit	-	(1,500,000)
Proceeds from contributions restricted for endowment	34,111	69,668
Proceeds from contributions restricted for investment in long-lived assets	2,422,752	921,555
Payments on long-term debt	(100,365)	(306,946)
Net cash provided by (used in) financing activities	<u>2,356,498</u>	<u>(815,723)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS	<u>11,268,755</u>	<u>3,000,275</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,590,306</u>	<u>7,590,031</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 21,859,061</u>	<u>\$ 10,590,306</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 31,407</u>	<u>\$ 59,848</u>
Cash and cash equivalents	\$ 18,253,640	\$ 8,956,429
Cash and cash equivalents restricted to investment in long-lived assets and improvements	3,478,417	1,567,689
Cash and cash equivalents restricted for endowment	127,004	66,188
Cash, cash equivalents, and restricted cash and cash equivalents, end of year	<u>\$ 21,859,061</u>	<u>\$ 10,590,306</u>

See Notes to Consolidated Financial Statements

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(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, 2022, 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, 2022 or 2021. The Foundation distributed approximately \$714,000 and \$680,000 to DBG as a draw on accumulated investment earnings for the years ended September 30, 2022 and 2021, 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, 2022, and had no assets or liabilities as of September 30, 2022 or 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, 2022 and 2021

(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, 2022 and 2021, the Garden's uninsured cash balances totaled approximately \$21,106,000 and \$9,868,000, 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, 2022 and 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 \$104,000 and \$67,000 at September 30, 2022 and 2021, respectively, and are included in other current assets in the accompanying consolidated statements of financial position.

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

Bequests receivable – Bequests receivable are recognized in the period that the Garden receives notification that it is a beneficiary under a court-validated will or irrevocable agreement, the trustee or estate representative has provided information regarding the nature and value of the estate assets and liabilities, and any conditions have been substantially met. Bequests receivable are stated at the estimated net amount the Garden expects to receive, based upon the estimated fair value of the estate (net of potential fees and expenses) and the Garden's percentage interest as a beneficiary. Future actual bequest collections typically differ from estimates. Bequests receivable totaled approximately \$0 and \$10,000 at September 30, 2022 and 2021, respectively, and are included in contributions receivable in the accompanying consolidated statements of financial position.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(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, 2022 and 2021 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 \$47,000 and \$37,000 at September 30, 2022 and 2021, respectively, 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, 2022 and 2021

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

Fair value measurement – 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, 2022 and 2021, F&F, LLC had no activity and as of September 30, 2022 and 2021, 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, 2022 and 2021

(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 \$209,000 and \$223,000 at September 30, 2022 and 2021, 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, 2022 and 2021 and has been included in other assets in the accompanying consolidated statements of financial position.

Changes in the value of these life insurance policies amounted to a decrease of approximately \$14,000 and an increase of approximately \$59,000, respectively, and are included in other in the accompanying consolidated statements of activities and change in net assets for the years ended September 30, 2022 and 2021.

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. No impairment charges were recorded during the years ended September 30, 2022 and 2021.

Equipment held for sale – Equipment held for sale is carried at the lesser of the book value or fair value less estimated costs to sell and consisted of certain equipment that was purchased for a special event and used during fiscal year 2019. The Garden determined that the equipment was no longer needed and management approved its sale. 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, 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. No equipment was held for sale as of September 30, 2022.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

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

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.

Contributions – 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, *Revenue from 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, 2022 and 2021

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

During the 2019 through 2022 fiscal years, the Garden received various conditional contributions totaling approximately \$1,100,000. The conditions include achievement of specified metrics of plant research, the availability of funding, and progress on the research conducted during various periods between fiscal years 2019 through 2024. As of September 30, 2022, a portion of the conditions have been met and the Garden recognized approximately \$300,000 as contributions revenue, with approximately \$436,000 recognized as contributions revenue during prior fiscal years as conditions were met. The remaining \$369,000 has not been recorded in the accompanying consolidated financial statements as of September 30, 2022.

Donated non-financial assets (in-kinds) – In September 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Garden implemented ASU 2020-07 during the year ended September 30, 2022 and presents contributed nonfinancial assets separately on the consolidated statement of activities and change in net assets as in-kind contributions.

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.

The Garden receives various in-kind contributions in the form of donated services, supplies, and other materials. In-kind contributions are valued using estimated prices of identical or similar services and products in the local retail markets (Level 2 inputs). The Garden’s general practice is to utilize donated items at the program level for which the items were intended to support and to monetize donated auction or plant related items at the event for which the items were intended to support.

During the years ended September 30, 2022 and 2021, there were no donor restrictions on the in-kind contributions. During the years ended September 30, 2022 and 2021, the Garden monetized in-kind contributions of approximately \$35,000 and \$67,000, respectively.

Contributed services include approximately \$341,000 and \$133,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets for the years ended September 30, 2022 and 2021, 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.

For the year ended September 30, 2022, in-kind contributions consist of the following:

	Contributed Services	Supplies and Plants	Advertising, Printing, and Postage	Total
Program	\$ 341,435	\$ 77,281	\$ -	\$ 418,716
General and administrative	2,565	-	149,538	152,103
Marketing, retail, and visitor services	-	457	-	457
Fundraising	751	32,045	-	32,796
Total in-kinds	<u>\$ 344,751</u>	<u>\$ 109,783</u>	<u>\$ 149,538</u>	<u>\$ 604,072</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

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

For the year ended September 30, 2021, in-kind contributions consist of the following:

	Contributed Services	Supplies and Plants	Advertising, Printing, and Postage	Total
Program	\$ 133,536	\$ 39,210	\$ -	\$ 172,746
General and administrative	3,000	-	213,597	216,597
Marketing, retail, and visitor services	37,015	21,844	-	58,859
Fundraising	564	-	-	564
Total in-kinds	<u>\$ 174,115</u>	<u>\$ 61,054</u>	<u>\$ 213,597</u>	<u>\$ 448,766</u>

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.

Revenue from contracts with customers – The Garden adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective 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.

As a result of the adoption, the Garden has multiple revenue streams that are accounted for as exchange transactions in accordance with ASC 606, *Revenue from Contracts with Customers*, as described below. 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.

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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

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

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>2022</u>	<u>2021</u>
Unearned membership revenue	\$ 2,356,615	\$ 1,723,973
Unearned admissions revenue	35,694	3,562
Unearned education and facility rental revenue	330,004	231,544
Unearned special event and other revenue	139,803	119,948
Total contract liabilities	<u>\$ 2,862,116</u>	<u>\$ 2,079,027</u>

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

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

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

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 \$689,000 (including in-kind advertising of approximately \$150,000) for the year ended September 30, 2022, and has been included in advertising, printing and postage in the accompanying consolidated statements of functional expenses. For the year ended September 30, 2021, advertising expense totaled approximately \$310,000 (including in-kind advertising of approximately \$214,000).

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, 2022, U.S. federal information returns for years ended prior to September 30, 2018 and state returns for years ended prior to September 30, 2019 were closed to assessment. Interest and penalties, if any, are accrued as a component of administration expenses when assessed.

The Garden accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes* by applying a more-likely-than-not threshold to the recognition and de-recognition of uncertain tax positions in earnings in the year of such change. The Garden evaluates potential uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. The Garden has identified its status as an exempt organization as a tax position; however, the Garden has determined that such tax position does not result in an uncertainty that requires recognition.

Recent accounting pronouncements – In 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 has estimated that if they were to adopt the standard, a non-current operating lease right-of-use asset of approximately \$415,000 and corresponding current and non-current operating lease liabilities of \$142,000 and \$273,000, respectively, would be recorded in the accompanying consolidated financial statements as of September 30, 2022.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

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

The estimate was calculated using the minimum future lease payments (see Note 13) and a risk-free rate of 4.04%. In accordance with ASU 2016-02, operating leases are expected to record a single lease cost, identified as lease expense, in the statement of operations, and payments arising from such operating leases are generally included within operating activities in the statement of cash flows.

Subsequent events – The Garden has evaluated events through January 25, 2023 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:

	2022	2021
Promises to give - restricted for a specified purpose		
The Saguaro Initiative Campaign	\$ 11,200	\$ 20,000
Endowment	10,000	40,833
Hazel Hare Center for Plant Science	5,312,967	-
Other programs	672,822	-
Promises to give - without donor restrictions	435,696	408,708
Employee Retention Tax Credit (ERTC)	2,180,174	-
Bequests - without donor restrictions	-	10,000
Total contributions receivable	8,622,859	479,541
Less: unamortized discount	(425,176)	(9,708)
Contributions receivable, net	\$ 8,197,683	\$ 469,833

The estimated cash flows for contributions receivable were discounted over the collection period using management determined risk-adjusted discount rates which ranged from 4.06% to 6.27%. Contributions receivable (before the unamortized discount and any valuation allowance) are due as follows at September 30:

	2022	2021
Contributions receivable due in less than one year	\$ 4,291,986	\$ 418,708
Contributions receivable due in one to five years	4,320,873	20,000
Contributions receivable due thereafter	10,000	40,833
Total contributions receivable	8,622,859	479,541
Discount to present value	(425,176)	(9,708)
Net pledges receivable	\$ 8,197,683	\$ 469,833

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(3) Investments

Investments consist of the following at September 30:

	2022	2021
Mutual Funds - Equity		
Domestic	\$ 7,960,823	\$ 9,258,690
International	1,659,030	3,708,973
Mutual Funds - Bonds	4,087,460	5,257,324
Equity Securities	554,900	-
Private Equity Limited Partnerships	83,457	-
Hedge Funds	318,476	703,566
Total	\$ 14,664,146	\$ 18,928,553

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 (loss) for the year ended September 30, 2022:

	Without donor restrictions	With donor restrictions	Total
Interest and dividends	\$ 11,203	\$ 380,680	\$ 391,883
Unrealized losses	(82,551)	(5,378,357)	(5,460,908)
Realized gains	-	1,561,635	1,561,635
Brokerage fees	-	(103,016)	(103,016)
Net Investment loss	\$ (71,348)	\$ (3,539,058)	\$ (3,610,406)

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

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

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(4) Property and equipment

Property and equipment consists of the following at September 30:

	<u>2022</u>	<u>2021</u>
Buidings and building improvements	\$ 21,925,754	\$ 21,747,460
Ground installations	17,405,812	17,154,854
Computer equipment and technology	2,132,714	2,132,123
Office furniture, fixtures and equipment	1,381,714	1,381,714
Master plan for buildings and exhibits	583,268	583,268
Machinery and equipment	927,322	929,546
Vehicles	149,967	149,967
Construction in progress	1,124,625	672,756
Total property and equipment	45,631,176	44,751,688
Less accumulated depreciation and amortization	<u>(23,900,725)</u>	<u>(22,497,051)</u>
Net property and equipment	<u>\$ 21,730,451</u>	<u>\$ 22,254,637</u>

Depreciation and amortization expense was \$1,460,965 and \$1,501,841 for the years ended September 30, 2022 and 2021, respectively.

During 2022, the Garden launched the Hazel Hare Center for Plant Science (“HHCPs”) Campaign in order to support phase two of a plan developed to revitalize and renovate the HHCPs. Total construction to date consists of architectural and engineering plans and site improvements totaling approximately \$102,000 for the year ended September 30, 2022. The architectural and engineering plans are expected to be completed by May 2023, at which point the next phase of construction will begin. The project is expected to be completed by early 2025. The total anticipated cost of the project is approximately \$15 million, of which, approximately \$12 million is expected to be funded through HHCPs Campaign contributions.

Construction in progress at September 30, 2022 and 2021 also 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.

(5) Collections

The Garden adopted ASU No. 2019-03 *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections* effective October 1, 2020.

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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(5) Collections (continued)

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 2022 for the annual Consumer Price Index ("CPI"), the Garden estimates that the value of each unprocessed specimen is approximately \$29 and the processed specimen value is approximately \$51, for an estimated total of herbarium specimens in the approximate range of \$4,811,000 to \$4,871,000. 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, 2022 and 2021, purchased acquisitions and de-accessions of collection items were not significant.

(6) Charitable gift annuities

The Garden is party to several charitable gift annuities. Under these agreements, the Garden has received a total of \$155,000. The agreements provide for payments to the donors over the term of the agreement (the donors' expected lifetimes) which total approximately \$2,000 each quarter. The fair value of the assets received by the Garden was recorded as contributions with donor restrictions at the inception of the agreement, based upon restrictions specified by the donors. At the inception of each agreement, a liability was recorded for the present value of the estimated annuity amounts payable to the beneficiaries over the expected term of the agreement using discount rates ranging from 2.20% to 6.00%.

The annuity liability balances are reduced by payments to the beneficiaries. Adjustments to the value of the annuity liabilities related to changes in present value or actuarial assumptions during the term of the gift annuity agreements are recognized as changes in the value of split interest agreements in the consolidated statements of activities and change in net assets. The net change in the value of the gift annuity liabilities for the years ended September 30, 2022 and 2021 (not including cash payments to beneficiaries) was an increase of approximately \$6,000 and \$12,000, respectively.

(7) 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% at September 30, 2021), and are collateralized by substantially all the assets of DBG. The line of credit matured in June 2022 and was extended through June 2023. In connection with this extension, the definition of interest was amended to the Adjusted Secured Overnight Financing Rate ("SOFR") plus 3% (3.05% at September 30, 2022). No amounts were outstanding under the line of credit as of September 30, 2022 and 2021. Interest expense incurred was \$0 and \$17,833 for the years ended September 30, 2022 and 2021, 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(8) Long-term debt

DBG had a term note payable with a bank that was paid in full as of September 30, 2021. The note was collateralized by substantially all the assets of DBG. Interest expense incurred was \$0 and \$7,511 for the years ended September 30, 2022 and 2021, respectively.

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 3.50% 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 subject to certain financial and nonfinancial covenants. As of September 30, 2020, total draws of \$1,000,000 had been made under the note payable agreement.

Interest expense incurred was \$31,114 and \$37,255 for the years ended September 30, 2022 and 2021, respectively.

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

Years Ending September 30,

2023	\$	103,934
2024		107,631
2025		111,459
2026		115,423
2027		119,528
Thereafter		<u>284,714</u>
Total future maturities		842,689
Less current portion		<u>(103,934)</u>
Total future maturities, less current portion	\$	<u><u>738,755</u></u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(9) Net assets with donor restrictions

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

	2022	2021
Subject to expenditure for a specified purpose		
The Saguaro Initiative - Undesignated	\$ 119,142	\$ 119,142
Community engagement	420,546	527,769
Education programs	270,246	232,773
Hazel Hare Center for Plant Science	7,183,982	-
Research	308,911	293,765
Other Garden exhibits / improvements	3,130,951	1,472,589
Other purpose restrictions	68,684	158,101
Total net assets restricted for a specified purpose	11,502,462	2,804,139
Subject to expenditure over time		
Earnings on endowments	580,129	4,835,251
Subject to restriction in perpetuity		
Contributions receivable, net	1,728	32,561
Cash surrender value of life insurance	209,444	223,096
Beneficial interest in remainder trust	274,000	377,000
Assets held under endowment	14,326,387	14,292,276
Total net assets held in perpetuity	14,811,559	14,924,933
Total net assets with donor restrictions	\$ 26,894,150	\$ 22,564,323

(10) Net assets released from donor restrictions

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

	2022	2021
Satisfaction of purpose restrictions:		
Community engagement	\$ 351,386	\$ 149,906
Education programs	2,362	7,439
Research	79,779	55,243
Other Garden exhibits / improvements	-	14,000
Other purpose restrictions	89,418	179,412
Total satisfaction of purpose restrictions	522,945	406,000
Expiration of time restrictions	716,064	682,242
Total net assets released from restrictions	\$ 1,239,009	\$ 1,088,242

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(11) 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:

	<u>2022</u>	<u>2021</u>
Huizingh Working Capital Fund To help ensure the long-term financial stability of the Garden by managing cash flow using this as an internal line of credit	\$2,000,000	\$1,100,000
Asset Replacement Reserve Intended to provide funds for repair or replacement of buildings, equipment, and other capital assets needed for the effective operation of the Garden	\$4,466,623	\$1,504,631
Opportunity Reserve 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	\$2,003,185	\$984,670
Desert Landscaping School (DLS) Opportunity Reserve 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	\$1,002	\$76,041
Emergency Reserve To provide a ready source of funds for unexpected material downturns in the Garden's cash flow or financial condition	\$2,000,559	\$1,000,000

(12) 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(12) Endowments (continued)

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>2022</u>	<u>2021</u>
Donor restricted endowments - held in perpetuity	\$ 14,326,387	\$ 14,292,276
Accumulated earnings on donor endowments subject to spending policies	<u>580,129</u>	<u>4,835,251</u>
Endowment net assets	<u>\$ 14,906,516</u>	<u>\$ 19,127,527</u>

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

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 19,127,527	\$ 16,798,399
Investment return:		
Investment income	277,664	97,061
Net appreciation (depreciation)	(3,816,722)	2,844,641
Proceeds from contributions and collections	34,111	69,668
Appropriations of endowment assets for expenditure	<u>(716,064)</u>	<u>(682,242)</u>
Endowment net assets, end of year	<u>\$ 14,906,516</u>	<u>\$ 19,127,527</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, 2022 and 2021. The entire endowment, including the Webster Trust, was established for the future prosperity of the Garden.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(12) Endowments (continued)

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 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.

In July 2022, the Foundation's Board of Directors approved appropriation for expenditure of \$731,240 to be distributed in October 2022 for use in fiscal year 2023. 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, in accordance with the endowment spending policy, does permit distributions to reduce the value of the endowment funds below the original value of donor contributions, subject to the maintenance of a minimum protected value as defined in the endowment spending policy. There were no such deficiencies at September 30, 2022 or 2021.

(13) 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 2027.

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 December 2025. Monthly payments on these leases total approximately \$18,000. In the normal course of business, operating leases are generally renewed or replaced by other leases.

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

Years Ending September 30,

2023	\$	147,947
2024		147,947
2025		137,034
2026		16,998
Total minimum future rental payments	\$	<u>449,926</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(13) Commitments and contingencies (continued)

Lease expense for the years ended September 30, 2022 and 2021 was approximately \$168,700 and \$150,500, 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 \$318,200 and \$363,600 subject to potential repayment at September 30, 2022 and 2021, 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.

(14) Fair value measurement

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurements</u>				
Mutual Funds - Equity				
Domestic	\$ 7,960,823	\$ -	\$ -	\$ 7,960,823
International	1,659,030	-	-	1,659,030
Mutual Funds - Bonds	4,087,460	-	-	4,087,460
Equity Securities	<u>554,900</u>	<u>-</u>	<u>-</u>	<u>554,900</u>
Total investments	14,262,213	-	-	14,262,213
Beneficial interest in remainder trust	<u>-</u>	<u>-</u>	<u>274,000</u>	<u>274,000</u>
Total recurring fair value measurements	<u>\$ 14,262,213</u>	<u>\$ -</u>	<u>\$ 274,000</u>	<u>\$ 14,536,213</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(14) Fair value measurement (continued)

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:

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

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 \$103,000 and \$32,000 for the years ended September 30, 2022 and 2021, respectively, and are included in other 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. In addition, 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 net asset value at \$318,476 and \$703,566 as of September 30, 2022 and 2021, respectively, have no unfunded commitments and can be redeemed quarterly with 60 days' notice.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(15) 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 \$360,000 and \$222,000 for the years ended September 30, 2022 and 2021, respectively.

The Garden also had a 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 provided for employer contributions at the discretion of the Board of Trustees of the Garden. No contributions were made by the Garden to the Non-Qualified 457(f) Plans during the years ended September 30, 2022 and 2021. The Plan distributed all remaining assets as of September 30, 2021 totaling approximately \$130,000.

The Garden also has a 457(b) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering the current Executive Director. 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, 2022 and 2021, while the Garden has set aside approximately \$204,000 and \$187,000, respectively, in a separate account (representing accumulated participant contributions, plus earnings thereon), these funds remain available to the general creditors of the Garden.

(16) Concentrations

Support and revenue – For the year ended September 30, 2022, the Garden received contributions from three donors that represented approximately 50% of total contributions for the year. For the year ended September 30, 2021, the Garden received contributions from one donor that represented approximately 13% of total contributions for the year.

Contributions receivable – For the year ended September 30, 2022, the Garden recorded contributions receivable from three donors that represented approximately 76% of total contributions receivable for the year. There were no concentrations in contributions receivable for the year ended September 30, 2021.

Related party contributions – Contributions from employees and members of the Board of Trustees totaled \$262,817 and \$131,864 for the years ended September 30, 2022 and 2021, respectively.

Contributions receivable from employees and members of the Board of Trustees totaled \$46,375 and \$3,750 as of September 30, 2022 and 2021, respectively.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(17) Liquidity and availability of resources

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 21,859,061	\$ 10,590,306
Contributions receivable, net	8,197,683	469,833
Accounts receivable, net	104,000	67,000
Investments	<u>14,664,146</u>	<u>18,928,553</u>
Total financial assets available within one year	44,824,890	30,055,692
Less: Amounts unavailable for general expenditures within one year:		
Net assets with donor restrictions	26,410,706	21,964,227
Designated by the Board of Trustees	<u>10,471,369</u>	<u>4,665,342</u>
Total amounts unavailable for general expenditure within one year	<u>36,882,075</u>	<u>26,629,569</u>
Financial assets available to meet cash needs for general expenditure within one year after board designations	<u>\$ 7,942,815</u>	<u>\$ 3,426,123</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 \$1.7 million per month.

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 \$2,000,000 and \$1,100,000 as of September 30, 2022 and 2021, respectively, 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 (Note 7).

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 no more than 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

(18) Risks and uncertainties

COVID-19 – 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. The pandemic has also impacted U.S. and global financial markets and the Garden’s investments have experienced significant volatility.

As of the date the consolidated 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.

Paycheck Protection Program (“PPP”) Loans – In April 2020, the Garden applied for and received a forgivable PPP 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 received formal forgiveness from the Small Business Association in June 2021.

In February 2021, the Garden applied for and received a forgivable PPP 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 received formal forgiveness from the Small Business Association in June 2022.

The Garden accounts for these agreements in accordance with FASB ASC 958-605 as conditional contributions. As of September 30, 2021 and 2020, the Garden estimated that they had satisfied the conditions of the loans to qualify for full forgiveness. As a result, such amounts were included within contribution revenue during the years ended September 30, 2021 and 2020.

Employee Retention Tax Credit (“ERTC”) – During 2022, the Garden determined that they qualified for an ERTC, as provided under the CARES Act and subsequently amended by the Consolidated Appropriations Act. The Garden accounts for the tax credit as a conditional contribution and the total amount of approximately \$2.2 million is recorded as a contribution in the accompanying consolidated statement of activities and change in net assets for the year ended September 30, 2022, with a corresponding contribution receivable as of September 30, 2022. Under the terms of the program, the Garden must incur qualifying wage or health insurance costs and have either suspended operations under governmental order or experienced specified declines in gross receipts. If conditions are not met, any amount of credit received is refundable to the government and the Association may be subject to fines and penalties. The amounts are expected to be received in 2023 and are deemed by management to be fully collectible.

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 "Organization") as of and for the year ended September 30, 2022, and our report thereon dated January 25, 2023, 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 34 and 35 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 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 25, 2023

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2022

ASSETS

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 17,576,097	\$ 677,543	\$ -	\$ 18,253,640
Investments	62,882	-	-	62,882
Contributions receivable, net	4,291,986	-	-	4,291,986
Other current assets	675,028	-	-	675,028
Intercompany receivable	-	27,759	(27,759)	-
TOTAL CURRENT ASSETS	22,605,993	705,302	(27,759)	23,283,536
CONTRIBUTIONS RECEIVABLE, net	645,886	-	-	645,886
PROPERTY AND EQUIPMENT, net	21,628,873	-	-	21,628,873
OTHER ASSETS	98,957	-	-	98,957
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	15,328,650	-	(15,328,650)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	3,478,417	-	-	3,478,417
Investments	552,992	-	-	552,992
Contributions receivable, net	3,258,083	-	-	3,258,083
Construction in process	101,578	-	-	101,578
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	-	127,004	-	127,004
Investments	-	14,048,272	-	14,048,272
Contributions receivable, net	-	1,728	-	1,728
Beneficial interest in remainder trust	-	274,000	-	274,000
Cash surrender value of life insurance policies	-	209,444	-	209,444
TOTAL ASSETS	\$ 67,699,429	\$ 15,365,750	\$ (15,356,409)	\$ 67,708,770

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Current portion of long-term debt	\$ 103,934	\$ -	\$ -	\$ 103,934
Accounts payable and accrued liabilities	1,622,332	-	-	1,622,332
Deferred revenue	3,022,905	-	-	3,022,905
Current portion of annuity payment liability	2,950	5,600	-	8,550
Intercompany payable	27,759	-	(27,759)	-
TOTAL CURRENT LIABILITIES	4,779,880	5,600	(27,759)	4,757,721
DEFERRED REVENUE, less current portion	157,393	-	-	157,393
ANNUITY PAYMENT LIABILITY, less current portion	20,053	31,500	-	51,553
LONG-TERM DEBT, less current portion	738,755	-	-	738,755
TOTAL LIABILITIES	5,696,081	37,100	(27,759)	5,705,422
NET ASSETS				
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Designated	10,471,369	-	-	10,471,369
Undesignated	24,637,829	-	-	24,637,829
NET ASSETS WITHOUT DONOR RESTRICTIONS	35,109,198	-	-	35,109,198
NET ASSETS WITH DONOR RESTRICTIONS	26,894,150	15,328,650	(15,328,650)	26,894,150
TOTAL NET ASSETS	62,003,348	15,328,650	(15,328,650)	62,003,348
TOTAL LIABILITIES AND NET ASSETS	\$ 67,699,429	\$ 15,365,750	\$ (15,356,409)	\$ 67,708,770

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, 2022

	<u>DBG</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE				
Retail sales	\$ 2,079,722	\$ -	\$ -	\$ 2,079,722
Cost of retail sales	<u>(189,136)</u>	<u>-</u>	<u>-</u>	<u>(189,136)</u>
Gross profit on retail sales	<u>1,890,586</u>	<u>-</u>	<u>-</u>	<u>1,890,586</u>
Beverage sales	987,072	-	-	987,072
Cost of beverage sales	<u>(152,314)</u>	<u>-</u>	<u>-</u>	<u>(152,314)</u>
Gross profit on beverage sales	<u>834,758</u>	<u>-</u>	<u>-</u>	<u>834,758</u>
Total gross profit on retail and beverage sales	<u>2,725,344</u>	<u>-</u>	<u>-</u>	<u>2,725,344</u>
Contributions				
Contributions of cash and other financial assets	13,847,484	3,278	(713,864)	13,136,898
In-kind contributions	604,072	-	-	604,072
Admissions	14,190,869	-	-	14,190,869
Memberships	4,379,435	-	-	4,379,435
Governmental contracts	364,263	-	-	364,263
Educational classes	49,010	-	-	49,010
Facility rental and concessions	581,710	-	-	581,710
Investment loss	(71,348)	(3,539,058)	-	(3,610,406)
Change in beneficial interest in net assets of DBG Foundation	<u>(4,372,196)</u>	<u>-</u>	<u>4,372,196</u>	<u>-</u>
Other	<u>(273)</u>	<u>(120,352)</u>	<u>-</u>	<u>(120,625)</u>
Total support and revenue before special events	<u>32,298,370</u>	<u>(3,656,132)</u>	<u>3,658,332</u>	<u>32,300,570</u>
Special events revenue	3,776,228	-	-	3,776,228
Less costs of direct donor benefits	<u>(820,609)</u>	<u>-</u>	<u>-</u>	<u>(820,609)</u>
Gross profit on special events	<u>2,955,619</u>	<u>-</u>	<u>-</u>	<u>2,955,619</u>
TOTAL SUPPORT AND REVENUE	<u>35,253,989</u>	<u>(3,656,132)</u>	<u>3,658,332</u>	<u>35,256,189</u>
EXPENSES				
Program	13,177,297	-	-	13,177,297
General and administrative	2,909,817	713,864	(713,864)	2,909,817
Marketing, retail, visitor services	3,157,638	2,200	-	3,159,838
Fundraising	<u>3,165,376</u>	<u>-</u>	<u>-</u>	<u>3,165,376</u>
TOTAL EXPENSES	<u>22,410,128</u>	<u>716,064</u>	<u>(713,864)</u>	<u>22,412,328</u>
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	<u>(6,851)</u>	<u>-</u>	<u>-</u>	<u>(6,851)</u>
CHANGE IN NET ASSETS	<u>12,837,010</u>	<u>(4,372,196)</u>	<u>4,372,196</u>	<u>12,837,010</u>
NET ASSETS, BEGINNING OF YEAR	<u>49,166,338</u>	<u>19,700,846</u>	<u>(19,700,846)</u>	<u>49,166,338</u>
NET ASSETS, END OF YEAR	<u>\$ 62,003,348</u>	<u>\$ 15,328,650</u>	<u>\$ (15,328,650)</u>	<u>\$ 62,003,348</u>