

---

# Denver Botanic Gardens, Inc.

---

**Combined Financial Report  
December 31, 2019**

<b>Independent Auditor's Report</b>	1-2
<b>Combined Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Combined Financial Statements	7-21

## Independent Auditor's Report

To the Board of Trustees  
Denver Botanic Gardens, Inc.

We have audited the accompanying combined financial statements of Denver Botanic Gardens, Inc. (the "Gardens"), which comprise the combined statement of financial position as of December 31, 2019 and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Denver Botanic Gardens, Inc. as of December 31, 2019 and its changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited Denver Botanic Gardens, Inc.'s 2018 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated May 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

### ***Emphasis of Matters***

As described in Note 2, the Gardens have been impacted by the worldwide COVID-19 pandemic as a subsequent event.

To the Board of Trustees  
Denver Botanic Gardens, Inc.

As discussed in Note 3, the Gardens adopted the provisions under Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Our opinion is not modified with respect to these matters.

*Plante & Moran, PLLC*

May 22, 2020

**Denver Botanic Gardens, Inc.**

**Combined Statement of Financial Position**

**December 31, 2019**  
**(with summarized comparative totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,882,580	\$ 5,657,948
Cash restricted for capital improvements	7,029,461	13,320,349
Supplemental lease payment fund	956,221	936,313
Investments	33,102,409	28,294,782
Receivables:		
Scientific and Cultural Facilities District	1,315,480	1,249,729
Other accounts receivable	835,286	370,271
Bond proceeds	-	1,284,027
Contributions receivable - Net	4,646,014	6,983,246
Inventory	334,051	333,763
Prepaid expenses and other	328,918	225,809
Property and equipment - Net	862,426	972,448
	<u>\$ 56,292,846</u>	<u>\$ 59,628,685</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 6,873,013	\$ 3,221,770
Deferred revenue	2,714,711	677,097
Annuity payable	62,270	71,396
	<u>9,649,994</u>	<u>3,970,263</u>
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	691,293	3,226,722
Board designated	12,873,222	10,672,040
	<u>13,564,515</u>	<u>13,898,762</u>
With donor restrictions	<u>33,078,337</u>	<u>41,759,660</u>
	<u>46,642,852</u>	<u>55,658,422</u>
	<u>\$ 56,292,846</u>	<u>\$ 59,628,685</u>

## Denver Botanic Gardens, Inc.

# Combined Statement of Activities and Changes in Net Assets

**Year Ended December 31, 2019**  
**(with summarized comparative totals for 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue, Gains, and Other Support</b>				
Membership dues	\$ 3,452,796	\$ -	\$ 3,452,796	\$ 3,370,997
Special events and facility rentals	4,662,327	-	4,662,327	4,235,593
Admissions	2,969,204	-	2,969,204	2,739,637
Scientific and Cultural Facilities District	5,124,217	-	5,124,217	4,657,267
City and County of Denver, Colorado support	1,122,625	-	1,122,625	1,089,928
Contributions and grants	2,064,705	1,307,930	3,372,635	3,098,242
Endowment distribution	864,987	203,950	1,068,937	985,309
Other	692,497	-	692,497	534,099
Chatfield Farms	2,177,706	-	2,177,706	2,144,468
Educational/public programs	1,274,322	-	1,274,322	1,196,911
Gift shop	820,238	-	820,238	865,665
Net assets released from restrictions	1,863,821	(1,863,821)	-	-
Total revenue, gains, and other support	27,089,445	(351,941)	26,737,504	24,918,116
<b>Expenses</b>				
Program services:				
Horticulture, science, and conservation	4,338,095	-	4,338,095	3,685,266
Education and outreach	5,091,086	-	5,091,086	4,784,435
Chatfield farms	3,079,431	-	3,079,431	2,619,722
Visitor experience	5,835,395	-	5,835,395	4,400,236
Operations and maintenance	5,058,099	-	5,058,099	3,787,041
Total program services	23,402,106	-	23,402,106	19,276,700
Support services:				
General and administrative	2,016,238	-	2,016,238	1,934,307
Development	1,416,931	-	1,416,931	1,316,521
Total support services	3,433,169	-	3,433,169	3,250,828
Total expenses	26,835,275	-	26,835,275	22,527,528
<b>Increase (Decrease) in Net Assets - Before nonoperating income (loss) and net assets</b>	254,170	(351,941)	(97,771)	2,390,588
<b>Nonoperating Income (Loss)</b>				
Endowment and capital campaign contributions	741,686	1,991,419	2,733,105	5,101,544
Capital projects	(27,211,823)	-	(27,211,823)	(6,560,776)
Release of net assets designated for nonoperating activities	13,836,200	(13,836,200)	-	-
Investment return on endowment - Net - After distribution	518,308	3,515,399	4,033,707	(2,452,266)
Bond proceeds	13,239,604	-	13,239,604	4,760,396
Total nonoperating income (loss)	1,123,975	(8,329,382)	(7,205,407)	848,898
<b>Increase (Decrease) in Net Assets</b>	1,378,145	(8,681,323)	(7,303,178)	3,239,486
<b>Net Assets - Beginning of year, as previously reported</b>	13,898,762	41,759,660	55,658,422	52,418,936
<b>Cumulative Effect of Change in Accounting Principle (Note 3)</b>	(1,712,392)	-	(1,712,392)	-
<b>Net Assets - Beginning of year</b>	12,186,370	41,759,660	53,946,030	52,418,936
<b>Net Assets - End of year</b>	<b>\$ 13,564,515</b>	<b>\$ 33,078,337</b>	<b>\$ 46,642,852</b>	<b>\$ 55,658,422</b>

## Combined Statement of Functional Expenses

Year Ended December 31, 2019  
(with summarized comparative totals for 2018)

	Program Services					Support Services			2019	2018	
	Horticulture, Science, and Conservation	Education and Outreach	Chatfield Farms	Visitor Experience	Operations and Maintenance	Total	General and Administrative	Development			Total
Salaries	\$ 2,583,011	\$ 2,491,687	\$ 1,328,636	\$ 2,247,011	\$ 1,836,078	\$ 10,486,423	\$ 831,250	\$ 583,942	\$ 1,415,192	\$ 11,901,615	\$ 10,712,100
Fringe benefits	807,934	790,037	374,186	652,908	593,544	3,218,609	307,273	177,383	484,656	3,703,265	3,019,186
Professional services	208,474	663,590	554,393	535,211	169,184	2,130,852	145,643	48,809	194,452	2,325,304	1,907,803
Occupancy	-	4,009	24,977	1,528,368	596,354	2,153,708	84,909	84,909	169,818	2,323,526	1,224,626
Program supplies	144,271	227,696	133,806	109,525	39,103	654,401	-	-	-	654,401	1,058,645
Advertising	-	135,010	4,013	-	175	139,198	428,933	-	428,933	568,131	538,480
Equipment, furniture, and fixtures	5,100	539	31,386	3,146	7,076	47,247	96	1,300	1,396	48,643	101,058
Exhibit fees	-	115,911	-	-	-	115,911	-	-	-	115,911	110,807
Information technology	24,152	49,633	5,012	17,770	779,085	875,652	23,241	-	23,241	898,893	322,963
Insurance	34,432	40,408	23,427	46,316	39,125	183,708	16,251	10,962	27,213	210,921	201,259
Miscellaneous	111,298	91,546	39,742	240,802	1,358	484,746	72,051	50,802	122,853	607,599	613,779
Office supplies	44,256	61,976	109,777	86,457	173,578	476,044	27,096	59,310	86,406	562,450	459,977
Plants and seeds	93,808	1,025	59,748	187,395	-	341,976	-	5,251	5,251	347,227	282,451
Postage and shipping	2,727	43,769	234	74,293	95	121,118	978	62,965	63,943	185,061	189,667
Printing and publications	94,649	132,856	5,425	14,842	2,573	250,345	86	167,196	167,282	417,627	306,378
Repairs and maintenance	-	-	88,526	-	629,127	717,653	-	-	-	717,653	472,289
Contract security	-	304	253,415	52,101	33,874	339,694	-	949	949	340,643	274,343
Trainings, conferences, and meetings	30,713	80,771	18,964	23,358	16,025	169,831	73,392	155,249	228,641	398,472	415,770
Travel	153,270	160,319	23,764	15,892	13,053	366,298	5,039	7,904	12,943	379,241	204,621
Depreciation	-	-	-	-	128,692	128,692	-	-	-	128,692	111,326
<b>Total</b>	<b>\$ 4,338,095</b>	<b>\$ 5,091,086</b>	<b>\$ 3,079,431</b>	<b>\$ 5,835,395</b>	<b>\$ 5,058,099</b>	<b>\$ 23,402,106</b>	<b>\$ 2,016,238</b>	<b>\$ 1,416,931</b>	<b>\$ 3,433,169</b>	<b>\$ 26,835,275</b>	<b>\$ 22,527,528</b>

**Combined Statement of Cash Flows**

**Year Ended December 31, 2019  
(with summarized comparative totals for 2018)**

	2019	2018
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (7,303,178)	\$ 3,239,486
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	128,692	111,326
Capital projects expensed	27,211,823	6,560,776
Cash received restricted for endowment	(160,500)	(138,690)
Contribution revenue restricted for capital campaign	(2,572,605)	(4,962,854)
Bond proceeds revenue	(13,239,604)	(4,760,396)
Net realized and unrealized (gains) losses on investments	(4,342,974)	2,085,456
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable - Scientific and Cultural Facilities District	(65,751)	(105,145)
Accounts receivable - Other	(465,014)	275,037
General contributions receivable	(101,674)	(220,160)
Prepaid expenses and other assets	(103,109)	(81,151)
Inventory	(288)	(76,648)
Accounts payable and accrued liabilities	3,651,242	1,435,374
Deferred revenue	325,222	143,586
Annuity payable	(9,126)	71,396
	2,953,156	3,577,393
<b>Net cash and cash equivalents provided by operating activities</b>	<b>2,953,156</b>	<b>3,577,393</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	1,072,937	991,813
Purchases of investments	(1,537,590)	(1,367,678)
Cash held in supplemental lease payment fund	(19,908)	(600,684)
Payments for purchases of improvements and equipment	(18,670)	(273,795)
Payments for capital projects	(27,211,823)	(6,560,776)
Cash received from bond proceeds	14,523,631	3,476,369
	(13,191,423)	(4,334,751)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(13,191,423)</b>	<b>(4,334,751)</b>
<b>Cash Flows from Financing Activities</b>		
Cash received restricted for endowment	160,500	138,690
Proceeds from contributions restricted for capital campaign	5,011,511	7,818,170
	5,172,011	7,956,860
<b>Net cash and cash equivalents provided by financing activities</b>	<b>5,172,011</b>	<b>7,956,860</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(5,066,256)</b>	<b>7,199,502</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>18,978,297</b>	<b>11,778,795</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 13,912,041</b>	<b>\$ 18,978,297</b>
<b>Combined Statement of Financial Position Classification of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 6,882,580	\$ 5,657,948
Cash restricted for capital improvements	7,029,461	13,320,349
	<b>\$ 13,912,041</b>	<b>\$ 18,978,297</b>
<b>Total cash and cash equivalents</b>	<b>\$ 13,912,041</b>	<b>\$ 18,978,297</b>



**Note 1 - Nature of Business**

Denver Botanic Gardens, Inc. (DBG) is a nonprofit corporation organized for the establishment and maintenance of botanical gardens and arboreta in cooperation with the City and County of Denver, Colorado (the "City"). DBG entered into an amended cooperative agreement with the City on April 5, 1991, expiring on December 31, 2029, whereby:

1. DBG will manage, control, and operate the facilities and all the buildings, grounds, plantings, collections, exhibits, programs, operations, and properties constituting Denver Botanic Gardens and Denver Botanic Gardens at Chatfield Farms (Chatfield Farms) for the benefit of the public.
2. DBG will donate to the City, for the benefit of the people of the City, all its right, title, and interest in and to any fixtures or improvements to real property, including plantings and horticulture exhibits, that are located on or in any of the facilities that constitute Denver Botanic Gardens.
3. The City will provide or purchase water, utilities, and certain types of insurance and other services, as deemed necessary, to DBG. These costs are paid directly to or reimbursed by the City. During the year ended December 31, 2019, the City appropriated to DBG \$1,122,625 for operations and provided telephone and certain types of administrative services to DBG.

DBG occupies and manages the properties described above, but they are owned by the City and, therefore, are not capitalized in the accompanying combined financial statements. Per the cooperative agreement with the City, funds spent by DBG on capital projects immediately become the property of the City upon certification of occupancy.

DBG funds the operating costs of the properties but does not pay rent to the City. These properties are unique and have no clear alternative purpose; therefore, the fair value of the properties is not determinable. Accordingly, DBG has not recorded the value of the use of the botanical garden properties located at 909 York Street and at Chatfield Farms in the accompanying combined financial statements (see Note 10).

**Note 2 - Significant Accounting Policies**

***Reporting Entity***

The accompanying combined financial statements include the accounts of Denver Botanic Gardens, Inc. and Denver Botanic Gardens Endowment, Inc. (DBGE), a separate not-for-profit organization established in 1991 with the transfer to DBGE of the majority of DBG's endowment funds. DBGE was formed for the purpose of, but not limited to, providing private financial support for DBG and its programs so long as DBG remains a tax-exempt entity and so long as its present contract with the City remains in effect.

The combined financial statements also include the accounts of an affiliated volunteer organization: the Denver Botanic Gardens Guild (the "Guild"). This affiliate works for the betterment of DBG by providing volunteer assistance and financial aid.

The above entities are referred herein collectively as the "Gardens."

***Classification of Net Assets***

The Gardens are required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions:

Amounts without donor restrictions are those currently available at the discretion of the board of trustees (the "Board") for use in the Gardens' operations.

Amounts with donor restrictions are either monies restricted by donors specifically for certain projects, programs, and time limitations or are assets that must be maintained permanently by the Gardens, as required by the donor, but the Gardens are permitted to use or expend part or all of any income derived from those assets in accordance with donor specifications.

**Note 2 - Significant Accounting Policies (Continued)**

***Contributions***

Contributions are recorded as without donor restrictions or donor-restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Gardens. Support that is restricted by the donor, including pledges, is reported as an increase in donor-restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor-restricted net assets are classified to net assets without donor restrictions and reported in the combined statement of activities and changes in net assets as net assets released from restrictions.

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. The Gardens use the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

***Capital Campaign***

In 2009, the Gardens embarked on a master development plan that is funded through the Flourish Capital Campaign, with a goal to raise a total of \$116 million. As of December 31, 2019, the Gardens had raised over \$115 million through contributions and bond proceeds that have been used for projects, including the new visitor center, science pyramid, parking structure, children's garden, and various other garden enhancements and infrastructure improvements. Bond proceeds are provided to the Gardens as qualified expenses are incurred and submitted to the City for reimbursement. The Gardens are currently in the last phase of the master development plan, which includes raising \$45.5 million for the construction of the Freyer-Newman Center for Science, Art, and Education and the renovation of the Boettcher Memorial Hall. Construction is 90 percent complete, and approximately \$45 million has been raised through December 31, 2019.

***Revenue Recognition***

Revenue from contracts with customers is composed of the following:

***Membership Dues***

Membership dues represent amounts paid upfront by members to access the Gardens over the 12-month membership period. The membership dues structure is set by the board of trustees. Dues are recognized over time using a straight-line method over the membership period. Unearned dues are included in deferred revenue.

***Admissions and Special Events***

Fees paid for admission to the Gardens or to attend special events are paid in full upon purchase of the initial ticket and recognized as revenue once the guest has received admittance to the gardens or event. Fees paid in advance are deferred and recognized at the point in time when admission to the Gardens is provided or on the date of the special event.

***Facility Rentals***

The Gardens enter into contracts to rent out portions of their facilities. Pricing and rental dates are set in a signed contract with the customer. Deposits and required prepayments are deferred and recognized on the date the facility is rented out to the customer.

## Notes to Combined Financial Statements

December 31, 2019

### Note 2 - Significant Accounting Policies (Continued)

#### **Educational/Public Programs**

The Gardens provide various educational programs. Fees charged for the educational programs are deferred until the classes are held. Due to the short-term nature of the programs, the revenue is recognized upon completion of the program.

#### **Gift Shop**

Income from sales of merchandise are recognized at the time of sale.

#### **Chatfield Farms**

The Chatfield Farms line item in the combined statement of activities and changes in net assets is composed of the admissions, special events, and facility rental revenue for the Chatfield Farms location. Those revenue streams are recognized on the same basis as disclosed above.

#### **Other Information**

Accounts receivable and deferred revenue (contract liabilities) related to contracts with customers as of January 1, 2019 were \$197,486 and \$677,097, respectively. Total revenue from contracts with customers was \$16,049,090 for the year ended December 31, 2019, of which \$12,596,294 was recognized at a point in time and \$3,452,796 was recognized over time.

#### **Cash and Cash Equivalents**

The Gardens consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Investments**

Investments in marketable equity and fixed-income securities with readily determinable market values are recorded at fair value based on quoted prices in active markets. The market values for alternative investments represent DBGE's pro rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments are not publicly traded on national security market exchanges, are generally illiquid, and may be valued differently than if readily available markets existed for such investments. Because of inherent uncertainties of valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values.

Investment income consists of DBGE's distributive share of any interest, dividends, capital gains, and losses generated from investments. Realized gains and losses attributable to investments are reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the combined statement of activities and changes in net assets.

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Gardens to concentrations of credit risk consist of cash and temporary investments, investment securities, and contributions receivable. The Gardens place their cash and temporary investments with creditworthy, high-quality financial institutions. A portion of the Gardens' cash deposits is not insured by the Federal Deposit Insurance Corporation (FDIC).

DBGE has significant investments in equity and debt securities and, therefore, is subject to concentrations of credit risk. Investments are managed by investment advisors who are supervised by the DBGE board of directors (the "Directors"). Though the market value of investments is subject to fluctuations on a year-to-year basis, the Directors believe that the investment policy is prudent for the long-term welfare of the Gardens.

**Note 2 - Significant Accounting Policies (Continued)**

Credit risk, with respect to contributions receivable, is limited due to the number and creditworthiness of the corporations, foundations, and individuals who comprise the contributor base.

***Inventory***

Inventory consists of gift shop items and is stated at the lower of cost or net realizable value, using the first-in, first-out method.

***Property and Equipment***

Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years. Total historical cost of property and equipment at December 31, 2019 is \$1,729,991, with total related accumulated depreciation at December 31, 2019 of \$867,565.

***Collections***

The Gardens' collections, which were acquired through purchases and contributions since the Gardens' inception, are not recognized as assets on the combined statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Contributed collection items are not reflected on the combined financial statements. Proceeds from deaccessions or insurance recoveries may be used for new collections or the direct care of other collections and are reflected as increases in the appropriate net asset classes.

***Charitable Gift Annuity***

The Gardens were the recipient of a charitable gift annuity with a total contribution of approximately \$152,000. The gift annuity assets are included in investments (see Note 6). The Gardens have a related annuity payment liability of \$62,270 as of December 31, 2019, which represents the present value of the future distributions due to the benefactor.

***Use of Estimates***

The preparation of combined financial statements in conformity with generally accepted accounting principles 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Donated Goods and Services***

Volunteers from the community and the Guild have donated a significant number of hours in assisting the Gardens in achieving the goals of their various service programs. The value of this contributed time is not reflected in the accompanying combined financial statements because it does not meet the recognition criteria under generally accepted accounting principles. The Gardens received approximately 91,200 volunteer hours in 2019.

Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. Donated goods and services received during the year ended December 31, 2019 include various advertising, plants, books, and supplies and totaled approximately \$213,000.

***Advertising Expense***

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2019 was approximately \$570,000.

**Note 2 - Significant Accounting Policies (Continued)**

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the combined statement of activities and changes in net assets. The combined financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Costs have been allocated between the various programs and support services on several bases and estimates. Certain wages and benefits have been allocated based on time and effort. Certain supplies, postage, shipping, and insurance expenses have been allocated based on usage. IT has been allocated based on headcount. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Nonoperating Income (Loss)***

Nonoperating income (loss) includes endowment and capital campaign contributions, capital projects expenditures, bond proceeds, and investment return.

***Income Taxes***

The Gardens are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and qualify for the charitable contribution deduction. However, income from activities not directly related to the Gardens' tax-exempt purpose is subject to taxation as unrelated business income. There was no significant unrelated taxable business income in 2019.

***Prior Year Information***

The combined financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Gardens' combined financial statements for the year ended December 31, 2018, from which the summarized information was derived.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including May 22, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. In March 2020, the Gardens had to close their facilities due to government stay-in-place orders. This closure has resulted in decreased revenue streams. As of May 22, 2020 the Gardens were able to open operations on a limited basis. Subsequent to year end, the Gardens' investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. No impairments were recorded as of the combined statement of financial of position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Gardens' activities, functional expenses, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

The Gardens have received Small Business Administration (SBA) Paycheck Protection Program funds of approximately \$3.1 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Notes to Combined Financial Statements

December 31, 2019

**Note 3 - Adoption of New Accounting Pronouncement and Restatement**

As of January 1, 2019, the Gardens adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The adoption of this ASU required the Gardens to account for membership revenue as an exchange transaction.

As of January 1, 2019, the Gardens adopted the ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The Gardens elected to apply the new ASUs using the modified prospective approach. The adoption resulted in an adjustment to decrease beginning net assets and increase deferred revenue in the amount of \$1,712,392 related to membership revenue recognition.

**Note 4 - Liquidity and Availability of Resources**

The Gardens' financial assets available within one year of December 31, 2019 for general expenditures are as follows:

Cash and cash equivalents (excluding certain board-designated and donor-restricted amounts)	\$ 6,644,364
Receivables from Scientific and Cultural Facilities District (SCFD)	1,315,480
Other receivables	835,286
Contributions receivable for operations due in 2020	224,493
Board-designated endowment assets appropriated for 2020	<u>732,569</u>
Total	<u>\$ 9,752,192</u>

Endowment funds held by DBGE consist of donor-restricted endowments and funds designated by the board to function as endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 14, the annual endowment distribution is set at 4 percent of the endowment's average market value over the prior 12 quarters as of June 30 of the prior year.

To manage liquidity, the Gardens structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. In the event of unanticipated liquidity needs, the Gardens have committed a line of credit in the amount of \$2,500,000 that they could draw upon. The line of credit is more fully defined in Note 17. Additionally, the investments include board-designated endowments totaling \$9,445,320. Although the Gardens do not intend to spend from the board-designated endowments other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from this endowment could be made available if necessary. However, both the board-designated endowments and donor-restricted endowments contain investments with lockup provisions that would reduce the total investments that could be made available (see Note 7). None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the combined statement of financial position date.

**Notes to Combined Financial Statements**

**December 31, 2019**

**Note 5 - City and County of Denver, Colorado Cooperative Agreement on Parking Facility**

In a third amendment to the cooperative agreement between the City and DBG, the City entered into a lease purchase agreement on October 1, 2008 in the amount of \$17.7 million to finance the construction of a parking facility located on the grounds of DBG. The City has agreed to a schedule of lease payments for the parking facility, and DBG has agreed to reimburse the City semiannually through its maturity in 2028. In February 2017, the Gardens refinanced the parking facility lease to reduce both the interest rate to 2.5 percent and the future payment schedule. As a result, interest-only payments were due through November 2018, with interest and principal payments beginning in December 2018 until maturity in 2028. For the year ended December 31, 2019, DBG made total lease payments of \$1,698,187.

Future minimum annual commitments under the operating lease are as follows:

Years Ending	Amount
2020	\$ 1,711,187
2021	1,731,187
2022	1,750,012
2023	1,769,899
2024	1,730,587
Thereafter	<u>7,091,701</u>
Total	<u>\$ 15,784,573</u>

Additionally, DBG is required to maintain a supplemental lease payment fund equal to 55 percent of the following year's debt payment to be funded out of incremental revenue. The balance in this fund at December 31, 2019 was \$956,221, which meets the 55 percent of the debt service requirement for the 2019 payment to the City under the lease terms as of December 31, 2019.

**Note 6 - Investments**

Investment assets, which include private and publicly held investments, are dedicated to providing the financial resources needed to meet the Gardens' charitable objectives. The investments are held in various investment structures. DBGE has adopted an investment policy that is approved annually by DBGE's governing board, whereby the investment portfolio is invested in a manner that is intended to produce maximum yield results while assuming a moderate level of investment risk. The investment portfolio is reviewed by the governing board and its investment advisors on a quarterly basis.

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the investment assets to fluctuate from period to period and result in a material change to the net assets of DBGE. Investments in equity securities fluctuate in value in response to many factors, such as the activities and financial condition of individual companies, business and industry market conditions, and the general economic environment. The values of bond investments and other fixed-income securities fluctuate in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions. Some investment managers are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes.

Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the investment portfolio.

Notes to Combined Financial Statements

December 31, 2019

**Note 6 - Investments (Continued)**

The details of Gardens' investments at fair value at December 31, 2019 are as follows:

<b>Marketable Securities</b>	
Money market funds	\$ 260,540
Fixed-income mutual funds	2,879,325
Equity mutual funds	22,902,309
<b>Alternative Investments</b>	
Private equity funds	1,360,663
Absolute return funds	839,046
Real estate fund	1,736,422
Real estate partnership	43,949
Hedge funds	3,080,155
Total	<u>\$ 33,102,409</u>

Investment return, net of distribution, is summarized as follows for the year ended December 31, 2019:

Interest and dividend income	\$ 786,983
Net realized and unrealized gains	4,342,974
Less investment management fees	(27,313)
Less endowment distribution	(1,068,937)
Total	<u>\$ 4,033,707</u>

**Note 7 - Fair Value Measurements**

The Gardens follow accounting standards that establish a framework for measuring fair value and require enhanced disclosures about fair value measurements. The guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring financial assets at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Marketable securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Private equity funds, absolute return funds, real estate fund, real estate partnership, and hedge funds:* Value based on net asset value per share of the investments.

There were no changes in valuation methodology during the year ended December 31, 2019.



Notes to Combined Financial Statements

December 31, 2019

Note 7 - Fair Value Measurements (Continued)

In accordance with accounting principles generally accepted in the United States of America, certain investments that are measured at fair value using net asset value practical expedient are not classified in the fair value hierarchy. The fair value amounts presented in the following table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statement of financial position. The following table presents information about the Gardens' assets measured at fair value on a recurring basis at December 31, 2019 and the valuation techniques used by the Gardens to determine those fair values.

Fair values of assets measured on a recurring basis at December 31, 2019 are as follows:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 26,042,174	\$ -	\$ -	\$ 26,042,174
Investments measured at NAV				7,060,235
Total assets				<u>\$ 33,102,409</u>

The following table summarizes the significant information required by ASU No. 2009-12 as of December 31, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity funds [a]	\$ 1,360,663	\$ 495,497	N/A	N/A
Absolute return funds [b]	839,046	-	Annually	100 days
Real estate fund [c]	1,736,422	-	Annually	30 days
Real estate partnership [d]	43,949	-	N/A	N/A
Hedge funds [e]	3,080,155	-	Monthly/ Semiannually	45-95 days
Total	<u>\$ 7,060,235</u>	<u>\$ 495,497</u>		

[a] The objectives of these funds are to provide capital appreciation-oriented investment strategies through illiquid vehicles. These strategies may include, but are not limited to, venture capital, operations-oriented buyouts, subordinated debt, restructuring and distressed debt and securities, special situations, and recapitalizations. The fair value of these investments has been estimated using net asset value per share of the investments. Investments in these funds cannot be redeemed because the investments have lockup periods of several years.

[b] The objective of the funds is to generate, over rolling three-year periods, an annualized return equal to or greater than 90-day Treasury bills, plus 5 percent, and to produce a positive real return in all rolling 12-month time periods. The strategies used by the investments include, but are not limited to, capital structure arbitrage, event arbitrage, fixed-income arbitrage, hedged equity investing, special situations investing, and direct investing in a range of derivatives. The fair value of these investments has been estimated using net asset value per share of the investments. Investments in these funds can be redeemed each December 31 with 100 days' notice, following the expiration of the lockup periods between September 30, 2019 and December 31, 2019.

[c] The objective of the fund is to achieve a long-term 5 percent real rate of return (gross of fees) and to meet or exceed the NCREIF Fund Index Open-End Diversified Core Equity. The strategy utilized by the fund is to invest in both barrier and growth markets. The current fund leverage target is 20 percent to 25 percent, with a maximum of 30 percent of total assets. The fund is valued quarterly by a valuation consultant, and assets are externally appraised at least annually in a staggered rotation, with approximately 25 percent of the properties appraised each quarter. Investment in this fund can be redeemed each December 31 with 30 days' notice.

Notes to Combined Financial Statements

December 31, 2019

**Note 7 - Fair Value Measurements (Continued)**

[d] The real estate partnership is a 5.7 percent limited partnership interest with underlying real estate assets that were received as a gift in 1986. The underlying real estate assets have not had any recent appraisals; however, management believes that the Gardens' ending capital balance approximates their share of the fair value of the partnership. No redemptions are allowed in this partnership, and there is no known market for the limited partnership interests.

[e] The objective of these funds is to produce equity-like returns with low volatility and low correlation to the equity and credit markets. The strategies include capitalizing on long-term market inefficiencies through investments in global equities, futures, forwards, credit opportunities, distressed securities, and various arbitrage-based approaches. The individual hedge funds have different redemption requirements, with the most restrictive requiring nine months' notice for a full withdrawal.

**Note 8 - Contributions Receivable**

Contributions receivable include several unconditional promises to give generated from a capital campaign and other operational contributions receivable. They are included as follows:

Contributions receivable	\$ 4,753,363
Less allowance for uncollectible pledges	(10,000)
Less discount	<u>(97,349)</u>
Net contributions receivable	<u>\$ 4,646,014</u>
Contributions receivable are due as follows:	
Less than one year	\$ 3,467,024
One to five years	1,043,339
More than five years	<u>243,000</u>
Total	<u>\$ 4,753,363</u>

Unconditional promises to give (contributions receivable) are from various entities, including foundations, corporations, and individuals. The discount factor utilized in the present value calculation is 2.5 percent.

Pledges receivable from three donors at December 31, 2019 represented 83 percent of gross contributions receivable.

**Note 9 - Conditional Contributions**

The Gardens receive grant funding from federal and state agencies. These grant funds are conditional based on future expenditures and activities occurring. As of December 31, 2019, conditional grant contributions outstanding totaled \$518,160, which are composed of the following:

	Grant Award	Grant Revenue Recognized	Conditional Grant Award Remaining
Institute of Museum and Library Services	\$ 377,429	\$ 6,600	\$ 370,829
Bureau of Land Management	249,209	124,604	124,605
Colorado Water Conservation Board	<u>69,847</u>	<u>47,121</u>	<u>22,726</u>
Total	<u>\$ 696,485</u>	<u>\$ 178,325</u>	<u>\$ 518,160</u>

## Notes to Combined Financial Statements

---

December 31, 2019

### **Note 10 - Real Estate**

#### ***Denver Botanic Gardens at Chatfield Farms***

In September 2019, the U.S. Army Corps of Engineers (the "Corps") terminated a long-term lease/sublease arrangement with the City and the Gardens and entered into a direct lease with the Gardens on approximately 700 acres of land near Chatfield State Park. The Gardens lease the land at no charge from the Corps under an agreement that expires in 2044. The Gardens have developed and operate Chatfield Farms on this property. The costs of developing the property have been expensed as incurred.

#### ***The Botanic Gardens House***

The Gardens have title to land and buildings located at 909 York Street, Denver, Colorado, which houses its administrative offices and is listed in the National Historic Register. This property is not recorded as an asset due to a reversionary clause in the title. The Gardens use the property at no charge.

#### ***Other Property***

Other property, totaling \$418,523, consists of property and water rights acquired primarily through donations. The gifts were recorded at fair value at the date of donation. The property is utilized in Gardens' programs for education and community outreach.

### **Note 11 - Collections**

The Gardens' collections consist of living plants, herbarium, a library, and historical collections. The Gardens' living plant and herbarium collections are made up of over 18,000 taxa of living plants, 63,000 herbarium specimen sheets, and 18,000 preserved and documented native mushrooms. The Gardens have a library consisting of over 30,000 books; periodicals; and seed and nursery catalogs, slides, and pamphlets. The Gardens have over 1,400 two-dimensional works of art in an array of media, including photographs, lithography drawings, maps, and engravings, and 60 pieces of three-dimensional art in the form of bronze, glass, and stone sculptures. Additionally, the Gardens have historic buildings, tools, and farm implements at its Chatfield Farms location.

All of these collections are held for educational, research, scientific, and curatorial purposes. Each of these collection items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to support the Gardens' collections. During 2019, deaccessioned items, primarily traded or donated to other botanical gardens, were not significant.

### **Note 12 - Scientific and Cultural Facilities District**

In November 1988, the voters of the Denver metropolitan area approved formation of a special tax district to support the scientific and cultural institutions within the district. Beginning in 1989, revenue for the special tax district was generated through a sales tax and distributed to various institutions, including the Gardens, in accordance with the provisions of the act. In 2016, the voters of the Denver metropolitan area extended the expiration date of the special tax district through June 30, 2030. During 2019, the Gardens' share of the tax amounted to \$5,274,217. As of December 31, 2019, \$1,315,480 is due from the Scientific and Cultural Facilities District.

As part of the reauthorization in 2016, the SCFD partnered with a community foundation to establish a Fund (the "Fund") that will provide merit-based grants to Tier III organizations. As part of this agreement, all Tier 1 organizations will financially support the Fund directly for a period of 12 years. As a result, the Gardens entered into a memorandum of understanding whereby the Gardens will contribute \$150,000 of their annual SCFD funds from 2018 through 2029 to the Fund. The 2019 contribution has been netted against the gross proceeds from the SCFD in the combined statement of activities and changes in net assets.

**Notes to Combined Financial Statements**

**December 31, 2019**

**Note 13 - Net Assets**

Net assets without donor restrictions consist of the following as of December 31, 2019:

	DBG and Affiliates	DBGE	Total
Board-designated net assets:			
Designated for controlled maintenance and capital improvements	\$ 3,134,067	\$ 3,940,977	\$ 7,075,044
Designated for gardens programs	287,078	5,504,343	5,791,421
Total board-designated net assets	3,421,145	9,445,320	12,866,465
Undesignated net assets	698,050	-	698,050
Total	<u>\$ 4,119,195</u>	<u>\$ 9,445,320</u>	<u>\$ 13,564,515</u>

Net assets with donor restrictions as of December 31 are available for the following purposes:

	DBG and Affiliates	DBGE	Total
Subject to expenditures for a specified time or purpose:			
Capital improvements	\$ 7,809,202	-	\$ 7,809,202
Education and outreach	171,956	-	171,956
Horticulture, science, and conservation	1,209,482	-	1,209,482
Chatfield Farms	211,012	-	211,012
Earnings on endowments (Note 14)	-	14,796,239	14,796,239
Endowment funds held in perpetuity (Note 14)	-	8,880,446	8,880,446
Total	<u>\$ 9,401,652</u>	<u>\$ 23,676,685</u>	<u>\$ 33,078,337</u>

**Note 14 - Donor-restricted and Board-designated Endowments**

The endowment consists of 31 individual funds established for a variety of purposes. DBGE's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Notes to Combined Financial Statements

December 31, 2019

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

*Interpretation of Relevant Law*

DBGE is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of DBGE had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, DBGE considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. DBGE has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, DBGE considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of DBGE 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 DBGE
- The investment policies of DBGE

Endowment Net Asset Composition by Type of Fund  
as of December 31, 2019

	Without Donor Restriction	Donor Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 23,676,685	\$ 23,676,685
Board-designated endowment funds	9,445,320	-	9,445,320
Total	\$ 9,445,320	\$ 23,676,685	\$ 33,122,005

Changes in Endowment Net Assets for the Fiscal  
Year Ended December 31, 2019

	Without Donor Restriction	Donor Restricted	Total
Endowment net assets - Beginning of year	\$ 7,524,289	\$ 20,685,014	\$ 28,209,303
Investment income	1,383,295	3,719,348	5,102,643
Contributions	741,686	160,500	902,186
Appropriation of endowment assets for DBG programs	(203,950)	(864,987)	(1,068,937)
Appropriation of endowment assets - Other	-	(23,190)	(23,190)
Endowment net assets - End of year	\$ 9,445,320	\$ 23,676,685	\$ 33,122,005

## Notes to Combined Financial Statements

December 31, 2019

### Note 14 - Donor-restricted and Board-designated Endowments (Continued)

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Gardens to retain as a fund of perpetual duration. There were no funds with deficiencies as of December 31, 2019.

#### *Return Objectives and Risk Parameters*

Endowment assets include donor-restricted funds that must be held in perpetuity, as well as Board-designated funds. The board has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable, and sustainable level of distribution to the DBG that supports current needs and provides for growth in assets and income over time. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that is at least 4.5 percent greater than the Consumer Price Index. The rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the investment portfolio. Actual returns in any given year may vary from this amount.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, DBGE relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). DBGE targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

DBGE has a board-approved spending policy for appropriating funds to DBG for expenditure each year. The annual endowment distribution is set at 4 percent of the endowment's average market value over the prior 12 quarters as of June 30 of the prior year. In establishing this policy, long-term expected return on its endowment was considered. Accordingly, over the long term, DBGE expects the current spending policy to allow its endowment to grow at an average of approximately 3 percent annually. This is consistent with DBGE's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

In determining the annual grant to DBG, the board may make an exception to the distribution policy.

### Note 15 - Employee Benefit Plan

The Gardens have a tax-sheltered annuity plan (the "Plan") under section 403(b) of the Code. The Plan covers substantially all full-time employees and regular part-time employees working more than 25 hours per week. Under the Plan, the Gardens contribute an amount equal to 6 percent of the participants' compensation. For 2019, the Gardens' contribution to the Plan was \$545,376.

**Notes to Combined Financial Statements**

---

**December 31, 2019**

**Note 16 - Medical Self-insurance**

Under the Gardens' insurance programs, coverage is obtained for catastrophic exposure, as well as those risks required to be insured by law or contract. It is the policy of the Gardens to self-insure for a portion of certain expected losses related primarily to health insurance. Provisions for losses expected under these programs are recorded based upon the Gardens' estimates of aggregate liability for claims incurred. The amount of actual losses incurred could differ materially from the estimates reflected in these combined financial statements. The Gardens have in place a specific stop-loss policy of \$60,000 per incident. As of December 31, 2019, approximately \$133,000 was accrued for the medical self-insurance policy.

**Note 17 - Line of Credit**

The Gardens have a line of credit agreement in the amount of \$2,500,000. The line of credit has an interest rate equal to the bank's prime rate less 0.75 percent (4.0 percent) at December 31, 2019. The line of credit is secured by the general assets of the Gardens and matures in July 2021. There were no borrowings on the line of credit during the year ended December 31, 2019.