Denver Botanic Gardens, Inc.

Combined Financial Report

December 31, 2018

Contents

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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, 2018 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, 2018 and the results of 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.

Other Matters

As discussed in Note 2, Denver Botanic Gardens, Inc. adopted the provisions under Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

To the Board of Trustees
Denver Botanic Gardens, Inc.

Report on Prior Year Combined Financial Statements

The combined financial statements of Denver Botanic Gardens, Inc. as of December 31, 2017 were audited by EKS&H LLLP, whose report dated May 18, 2018 expressed an unqualified opinion on those combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

May 31, 2019

Denver Botanic Gardens, Inc.

Combined Statement of Financial Position

December 31, 2018
(with summarized comparative totals for 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 5,657,948	$ 4,116,515
Cash restricted for capital improvements	13,320,349	7,662,280
Supplemental lease payment fund	936,313	335,629
Investments	28,294,782	30,004,373
Receivables:		
Scientific and Cultural Facilities District	1,249,729	1,144,584
Other accounts receivable	370,271	645,308
Bond proceeds	1,284,027	-
Contributions receivable - Net	6,983,246	9,618,402
Inventory	333,763	257,115
Prepaid expenses and other	225,809	144,658
Property, plant, and equipment - Net	972,448	809,979
Total assets	**$ 59,628,685**	**$ 54,738,843**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 3,221,770	$ 1,786,396
Deferred revenue	677,097	533,511
Annuity payable	71,396	-
Total liabilities	3,970,263	2,319,907
Net Assets		
Net assets without donor restrictions:		
Undesignated	3,226,722	2,433,794
Board designated	10,672,040	9,705,683
Total net assets without donor restrictions	13,898,762	12,139,477
Net assets with donor restrictions	41,759,660	40,279,459
Total net assets	55,658,422	52,418,936
Total liabilities and net assets	**$ 59,628,685**	**$ 54,738,843**

Combined Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018
(with summarized comparative totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Membership dues	$ 3,370,997	$ -	$ 3,370,997	$ 3,271,160
Special events and facility rentals	4,235,593	-	4,235,593	4,080,887
Admissions	2,739,637	-	2,739,637	2,528,064
Scientific and Cultural Facilities District	4,657,267	-	4,657,267	4,429,136
City and County of Denver, Colorado support	1,089,928	-	1,089,928	1,058,183
Contributions and grants	2,182,948	915,294	3,098,242	2,610,587
Endowment distribution	819,551	165,758	985,309	941,521
Other	534,099	-	534,099	520,274
Chatfield Farms	2,144,468	-	2,144,468	2,043,900
Educational/public programs	1,196,911	-	1,196,911	1,033,857
Gift shop	865,665	-	865,665	788,003
Net assets released from restrictions	1,459,561	(1,459,561)	-	-
Total revenue, gains, and other support	25,296,625	(378,509)	24,918,116	23,305,572
Expenses				
Program expenses:				
Horticulture, science, and conservation	3,685,266	-	3,685,266	3,520,387
Education and outreach	4,784,435	-	4,784,435	4,775,441
Chatfield farms	2,619,722	-	2,619,722	2,229,366
Visitor experience	4,400,236	-	4,400,236	3,539,313
Operations and maintenance	3,787,041	-	3,787,041	3,233,439
Total program expenses	19,276,700	-	19,276,700	17,297,946
Supporting activities:				
General and administrative	1,934,307	-	1,934,307	2,237,229
Development	1,316,521	-	1,316,521	1,204,832
Total supporting activities	3,250,828	-	3,250,828	3,442,061
Total expenses	22,527,528	-	22,527,528	20,740,007
Increase (Decrease) in Net Assets - Before nonoperating income (loss)	2,769,097	(378,509)	2,390,588	2,565,565
Nonoperating Income (Loss)				
Endowment and capital campaign contributions	335,146	4,766,398	5,101,544	13,648,609
Capital projects	(6,560,776)	-	(6,560,776)	(1,730,219)
Release of net assets designated for nonoperating activities	1,676,212	(1,676,212)	-	-
Investment return on endowment - After distribution	(1,220,790)	(1,231,476)	(2,452,266)	2,965,626
Bond proceeds	4,760,396	-	4,760,396	-
Total nonoperating (loss) income	(1,009,812)	1,858,710	848,898	14,884,016
Increase in Net Assets	1,759,285	1,480,201	3,239,486	17,449,581
Net Assets - Beginning of year	12,139,477	40,279,459	52,418,936	34,969,355
Net Assets - End of year	**$ 13,898,762**	**$ 41,759,660**	**$ 55,658,422**	**$ 52,418,936**

See notes to combined financial statements.

Combined Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services						Support Services			
	Horticulture, Science, and Conservation	Education and Outreach	Chatfield Farms	Visitor Experience	Operations and Maintenance	Total	General and Administrative	Development	Total	Total
Salaries	$ 2,407,097	$ 2,297,427	$ 1,161,831	$ 1,969,032	$ 1,527,237	$ 9,362,624	$ 803,607	$ 545,869	$ 1,349,476	$ 10,712,100
Fringe benefits	697,565	629,908	293,662	515,861	452,278	2,589,274	280,364	149,548	429,912	3,019,186
Professional services	74,254	509,672	487,427	425,216	222,980	1,719,549	141,291	46,963	188,254	1,907,803
Occupancy	-	8,345	26,760	548,557	580,014	1,163,676	30,475	30,475	60,950	1,224,626
Program supplies	147,699	556,940	122,959	145,454	84,878	1,057,930	-	715	715	1,058,645
Advertising	-	66,545	4,724	1,165	-	72,434	466,046	-	466,046	538,480
Equipment, furniture, and fixtures	7,556	1,094	26,825	27,101	38,242	100,818	-	240	240	101,058
Exhibit fees	-	110,807	-	-	-	110,807	-	-	-	110,807
Information technology	15,190	48,263	4,067	32,615	189,259	289,394	23,249	10,320	33,569	322,963
Insurance	36,892	55,869	18,148	41,845	26,235	178,989	13,150	9,120	22,270	201,259
Miscellaneous	66,694	70,817	36,162	297,212	2,857	473,742	81,382	58,655	140,037	613,779
Office supplies	25,164	65,431	98,365	89,142	112,492	390,594	29,139	40,244	69,383	459,977
Plants and seeds	76,433	1,333	36,784	165,536	23	280,109	-	2,342	2,342	282,451
Postage and shipping	3,967	57,501	1,602	2,244	855	66,169	2,310	121,188	123,498	189,667
Printing and publications	5,644	134,955	2,757	15,260	787	159,403	244	146,731	146,975	306,378
Repairs and maintenance	866	-	94,181	-	377,242	472,289	-	-	-	472,289
Contract security	-	-	177,010	62,916	32,873	272,799	-	1,544	1,544	274,343
Trainings, conferences, and meetings	32,671	82,101	18,032	49,455	24,006	206,265	59,930	149,575	209,505	415,770
Travel	87,574	87,427	8,426	11,625	3,457	198,509	3,120	2,992	6,112	204,621
Depreciation	-	-	-	-	111,326	111,326	-	-	-	111,326
Total	**$ 3,685,266**	**$ 4,784,435**	**$ 2,619,722**	**$ 4,400,236**	**$ 3,787,041**	**$ 19,276,700**	**$ 1,934,307**	**$ 1,316,521**	**$ 3,250,828**	**$ 22,527,528**

See notes to combined financial statements.

Combined Statement of Cash Flows

Year Ended December 31, 2018
(with summarized comparative totals for 2017)

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 3,239,486	$ 17,449,581
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	111,326	83,570
Capital projects expensed	6,560,776	1,009,318
Cash received restricted for endowment	(138,690)	(40,400)
Contribution revenue restricted for capital campaign	(4,962,854)	(12,402,156)
Bond proceeds revenue	(4,760,396)	-
Net realized and unrealized losses (gains) on investments	2,085,456	(3,357,704)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable - Scientific and Cultural Facilities District	(105,145)	(39,628)
Accounts receivable - Other	275,037	(362,577)
General contributions receivable	(220,160)	(32,301)
Prepaid expenses and other assets	(81,151)	(20,725)
Inventory	(76,648)	(6,559)
Accounts payable and accrued liabilities	1,435,374	292,832
Deferred revenue	143,586	82,706
Annuity payable	71,396	-
Net cash and cash equivalents provided by operating activities	3,577,393	2,655,957
Cash Flows from Investing Activities		
Proceeds from sale of investments	991,813	933,994
Purchases of investments	(1,367,678)	(1,681,931)
Cash held in supplemental lease payment fund	(600,684)	494,904
Payments for purchases of improvements and equipment	(273,795)	(120,358)
Payments for capital projects	(6,560,776)	(1,009,318)
Cash received from bond proceeds	3,476,369	-
Net cash and cash equivalents used in investing activities	(4,334,751)	(1,382,709)
Cash Flows from Financing Activities		
Cash received restricted for endowment	138,690	40,400
Proceeds from contributions restricted for capital campaign	7,818,170	3,375,353
Net cash and cash equivalents provided by financing activities	7,956,860	3,415,753
Net Increase in Cash and Cash Equivalents	7,199,502	4,689,001
Cash and Cash Equivalents - Beginning of year	11,778,795	7,089,794
Cash and Cash Equivalents - End of year	**$ 18,978,297**	**$ 11,778,795**
Statement of Financial Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 5,657,948	$ 4,116,515
Cash restricted for capital improvements	13,320,349	7,662,280
Total cash and cash equivalents	**$ 18,978,297**	**$ 11,778,795**

See notes to combined financial statements.

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 or reimbursed by the City. During the year ended December 31, 2018, the City appropriated to DBG $1,089,928 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 8).

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."

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Gardens adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities.* This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. Under the new standard, the Organization has elected to omit the presentation of the statement of functional expenses and disclosures about liquidity and availability of resources for periods prior to the period of adoption. As a result of the adoption of this standard, the financial information for the year ended December 31, 2017 has been restated as follows: management and general expense has increased $346,440, development expenses increased $283,550, and program expenses decreased $629,990; net assets of $31,698,204 previously reported as temporarily restricted net assets and net assets of $8,581,255 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions.

Classification of Net Assets

The Gardens is required to report information regarding its 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 Organization, as required by the donor, but the Gardens is permitted to use or expend part or all of any income derived from those assets in accordance with donor specifications.

Contributions

Contributions are recorded as without donor restriction 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 without donor restricted net assets 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 revenues 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 uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Note 2 - Significant Accounting Policies (Continued)

Capital Campaign

The Gardens has embarked on a master development plan that is funded through the Flourish Capital Campaign, with a goal to raise a total of $114 million. As of December 31, 2018, the Gardens had raised approximately $112 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 is currently in the last phase of the master development plan to raise $43 million for the construction of the Freyer-Newman Center for Science, Art, and Education and the renovation of the Boettcher Memorial Hall, with approximately $41 million raised through December 31, 2018.

Revenue Recognition

Income from fees charged for educational programs is deferred and recognized in the period the classes are held. Income from facility rentals is deferred and recognized in the period the facility is to be rented out. Income from admissions, memberships, gift shop, special events, and other items is recognized at the time of service or sale. Monies appropriated yearly to the Gardens from the City and the Scientific and Cultural Facilities District are recognized as revenue when the Gardens receives notifications of those appropriated amounts.

Cash and Cash Equivalents

The Gardens considers 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 places its cash and temporary investments with creditworthy, high-quality financial institutions. A portion of the Gardens' cash deposits is not insured by the 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.

Improvements and Equipment

Improvements and equipments 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.

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 unrestricted net assets 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

In 2018, the Gardens was 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 5). The Gardens has a related annuity payment liability of $71,396 as of December 31, 2018, 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 its 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 92,500 volunteer hours in 2018.

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, 2018 include various advertising, plants, books and supplies and totaled approximately $579,000.

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2018 was approximately $538,000.

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 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 is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies 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 2018.

The Gardens follows the guidance of Accounting Standards Codification Topic 820, *Accounting for Uncertainty in Income Taxes.* After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2018. If incurred, interest and penalties associated with tax positions are recorded in the period assessed in administrative costs. No interest or penalties have been assessed as of December 31, 2018.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in 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 new guidance will be effective for DBG's year ending December 31, 2019. The Gardens has determined this ASU will not have a significant impact.

Note 2 - Significant Accounting Policies (Continued)

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for DBG's year ending December 31, 2020 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The new lease standard is expected to have a significant effect on the Gardens' financial statements as a result of Gardens's operating leases, as disclosed in Note 4, that will be reported on the combined balance sheet at adoption. Upon adoption, the Gardens will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *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 accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Gardens' year ending December 31, 2019 and will be applied on a modified prospective basis. The Gardens does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

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, 2017, from which the summarized information was derived.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 31, 2019, which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 3 - Liquidity and Availability of Resources

The Organization's financial assets available within one year of the combined balance sheet date for general expenditures are as follows:

Cash and cash equivalents (excluding $3,059,209 for board-designated and donor-restricted amounts)	$ 2,598,739
Receivables from SCFD	1,249,729
Other receivables	370,271
Contributions receivable for operations due in 2019	199,049
Board-designated endowment assets appropriated for 2019	684,155
Total	$ 5,101,943

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 12, 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 structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of unanticipated liquidity needs, the Gardens has committed a line of credit in the amount of $2,500,000, which it could draw upon. The line of credit is more fully defined in Note 15. Additionally, the investments include board-designated endowments totaling $7,524,289. Although the Gardens does 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 6). 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 balance sheet date.

Note 4 - 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, 2018, DBG made total lease payments of $609,509.

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

Years Ending	Amount
2019	$ 1,698,186
2020	1,711,186
2021	1,731,187
2022	1,750,016
2023	1,769,899
Thereafter	8,822,288
Total	$ 17,482,762

Note 4 - City and County of Denver, Colorado Cooperative Agreement on Parking Facility (Continued)

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, 2018 was $936,313, 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, 2018.

Note 5 - 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, which is approved annually by DBGE's governing board, whereas 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.

The details of Gardens' investments at fair value at December 31, 2018 are as follows:

Marketable Securities	
Money market funds	$ 128,673
Fixed-income mutual funds	2,519,188
Equity mutual funds	18,607,863
Alternative Investments	
Private equity funds	1,447,454
Absolute return funds	1,598,589
Real estate fund	1,638,099
Real estate partnership	45,154
Hedge funds	2,309,762
Total	$ 28,294,782

Investment return, net of distribution, is summarized as follows for the year ended December 31, 2018:

Interest and dividend income	$ 645,978
Net realized and unrealized losses	(2,085,456)
Less investment management fees	(27,479)
Less endowment distribution	(985,309)
Total	$ (2,452,266)

Note 6 - Fair Value Measurements

The Gardens follows 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, 2018.

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, 2018 and the valuation techniques used by the Gardens to determine those fair values.

Note 6 - Fair Value Measurements (Continued)

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2018
Marketable securities	$ 21,255,724	$ -	$ -	$ -	$ 21,255,724
Private equity funds	-	-	-	1,447,454	1,447,454
Absolute return	-	-	-	1,598,589	1,598,589
Real estate fund	-	-	-	1,638,099	1,638,099
Real estate partnership	-	-	-	45,154	45,154
Hedge fund	-	-	-	2,309,762	2,309,762
Total	$ 21,255,724	$ -	$ -	$ 7,039,058	$ 28,294,782

The following table summarizes the significant information required by ASU No. 2009-12 as of December 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity funds [a]	$ 1,447,454	$ 619,994	N/A	N/A
Absolute return funds [b]	1,598,589	-	Annually	100 days
Real estate fund [c]	1,638,099	-	Annually	30 days
Real estate partnership [d]	45,154	-	N/A	N/A
Hedge funds [e]	2,309,762	-	Monthly/ Semiannually	45 - 95 days
Total	$ 7,039,058	$ 619,994		

[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.

Note 6 - 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 7 - 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	$ 7,191,998
Less allowance for uncollectible pledges	(10,000)
Less discount	(198,752)
Net contributions receivable	$ 6,983,246

Contributions receivable are for the following purposes:	
General operations	$ 519,049
Capital campaign	6,464,197
Total	$ 6,983,246

Unconditional promises to give (contributions receivable) are from various entities, including foundations, corporations, and individuals. The discount factors utilized in the present value calculation range from 2.25 percent to 2.5 percent.

Pledges receivable from four donors at December 31, 2018 represented 86 percent of gross contributions receivable.

Note 8 - Real Estate

Denver Botanic Gardens at Chatfield Farms

The U.S. Army Corps of Engineers (the "Corps") and the City have entered into a long-term lease on approximately 700 acres of land near Chatfield State Park. The City leases the land at no charge from the Corps under a lease agreement that expires in 2037. Under the amended cooperative agreement with the City, the Gardens has developed and operates Chatfield Farms on this property. The costs of developing the property have been expensed as incurred. The Gardens uses the land at no charge.

The Botanic Gardens House

The Gardens has 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 uses 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 9 - 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 has a library consisting of over 30,000 books, periodicals, seed and nursery catalogs, slides, and pamphlets. The Gardens has 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 has 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 2018, deaccessioned items, primarily traded or donated to other botanical gardens, were not significant.

Note 10 - 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 2018, the Gardens' share of the tax amounted to $4,807,267. As of December 31, 2018, $1,249,729 is due from the Scientific and Cultural Facilities District (the "SCFD").

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 its annual SCFD funds from 2018 through 2029 to the Fund. The 2018 contribution has been netted against the gross proceeds from the SCFD in the combined statement of activities and changes in net assets.

Note 11 - Net Assets

Net assets without donor restrictions consist of the following as of December 31, 2018:

	DBG and Affiliates	DBGE	Total
Board-designated net assets:			
Designated for controlled maintenance and capital improvements	$ 2,814,715	$ 3,443,475	$ 6,258,190
Designated for gardens programs	333,036	4,080,814	4,413,850
Total board-designated net assets	3,147,751	7,524,289	10,672,040
Undesignated net assets	3,226,722	-	3,226,722
Total	$ 6,374,473	$ 7,524,289	$ 13,898,762

Note 11 - Net Assets (Continued)

The Board annually reviews the designated net assets to determine annual funding and spending on these funds.

Net assets with donor restriction consist of the following as of December 31, 2018:

	DBG and Affiliates	DBGE	Total
Subject to expenditures for a specified time or purpose:			
Capital improvements	$ 19,814,483	$ -	$ 19,814,483
Education and outreach	234,943	-	234,943
Horticulture, science, and conservation	748,218	-	748,218
Chatfield Farms	277,003	-	277,003
Earnings on endowments (Note 12)	-	11,965,067	11,965,067
Endowment funds held in perpetuity (Note 12)	-	8,719,946	8,719,946
Total	$ 21,074,647	$ 20,685,013	$ 41,759,660

Note 12 - 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.

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

Note 12 - Donor-restricted and Board-designated Endowments (Continued)

	Endowment Net Asset Composition by Type of Fund as of December 31, 2018		
	Without Donor Restriction	Donor Restricted	Total
Donor-restricted endowment funds	$ -	$ 20,685,013	$ 20,685,013
Board-designated endowment funds	7,524,289	-	7,524,289
Total	$ 7,524,289	$ 20,685,013	$ 28,209,302

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restriction	Donor Restricted	Total
Endowment net assets - Beginning of year	$ 7,710,079	$ 22,426,279	$ 30,136,358
Investment income	(401,239)	(1,065,718)	(1,466,957)
Contributions	335,146	212,422	547,568
Appropriation of endowment assets for DBG programs	(140,548)	(844,761)	(985,309)
Appropriation of endowment assets - other	20,851	(43,209)	(22,358)
Endowment net assets - End of year	$ 7,524,289	$ 20,685,013	$ 28,209,302

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 DBGE to retain as a fund of perpetual duration. Deficiencies of this nature exist in 4 donor-restricted endowment funds, which together have an original gift value of $2,418,817, a current fair value of $2,407,277, and a deficiency of $11,540 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board.

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.

Note 12 - Donor-restricted and Board-designated Endowments (Continued)

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 13 - Employee Benefit Plan

The Gardens has 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 contributes an amount equal to 6 percent of the participants' compensation. For 2018, the Gardens' contribution to the Plan was $461,047.

Note 14 - 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 has in place a specific stop-loss policy of $60,000 per incident. As of December 31, 2018, approximately $141,000 was accrued for the medical self-insurance policy.

Note 15 - Line of Credit

The Gardens has 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 (4.6 percent) at December 31, 2018. The line of credit is secured by the general assets of the Gardens and matures in July 2019. There were no borrowings on the line of credit during the year ended December 31, 2018.