



Memphis Botanic Garden Foundation, Inc.

Audited Financial Statements

June 30, 2014

Memphis Botanic Garden Foundation, Inc.

Index

June 30, 2014

Independent Auditors' Report	Page 3
Statement of Financial Position	5
Statement of Activities	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8

Independent Auditors' Report

The Board of Directors
Memphis Botanic Garden Foundation, Inc.
Memphis, Tennessee

We have audited the accompanying financial statements of Memphis Botanic Garden Foundation, Inc. (the "Foundation"), which comprise the statement of financial condition as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Memphis Botanic Garden Foundation, Inc. as of June 30, 2014, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

January 9, 2015

Memphis Botanic Garden Foundation, Inc.

Statement of Financial Position

June 30, 2014

Assets

Cash and cash equivalents	\$ 925,553
Receivables:	
Contributions, net	2,826,553
Garden Concert Series	85,798
Refundable income taxes	78,338
Inventories	6,170
Investment in Community Foundation Balanced Pool	2,868,234
Prepaid expenses	259,609
Equipment, net	107,916
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	\$ 7,158,171
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Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 128,693
Construction contracts payable	909,853
Accrued salaries and vacations	194,278
Deferred revenue	1,242,897
Outstanding borrowings under bank line of credit	2,463,995
	<hr/>
	4,939,716
Net Assets:	
Unrestricted	(168,371)
Temporarily restricted	449,201
Permanently restricted	1,937,625
	<hr/>
	2,218,455
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	\$ 7,158,171
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Memphis Botanic Garden Foundation, Inc.

Statement of Activities

For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Garden Operations:				
Support and Revenue				
Membership dues	\$ 448,429	\$ -	\$ -	\$ 448,429
Education fees	221,113	-	-	221,113
Management fees	137,920	-	-	137,920
Contributions	3,808,654	34,581	-	3,843,235
Facility rental	559,372	-	-	559,372
Food and beverage	256,257	-	-	256,257
Art sales	20,948	-	-	20,948
Special event income	301,078	-	-	301,078
Investment income	394,393	-	-	394,393
Other income	56,139	-	-	56,139
Net assets released from restrictions	2,064,101	(2,064,101)	-	-
Total support and revenue	8,268,404	(2,029,520)	-	6,238,884
Operating Expenses				
Salaries	2,284,209	-	-	2,284,209
Bank and credit card fees	27,265	-	-	27,265
Art commissions	14,154	-	-	14,154
Special events	7,114	-	-	7,114
Cultivation	943	-	-	943
Depreciation	35,429	-	-	35,429
Dues and subscriptions	5,645	-	-	5,645
Equipment rental	84,186	-	-	84,186
Materials and supplies	313,526	-	-	313,526
Food and beverage	132,858	-	-	132,858
Insurance	188,977	-	-	188,977
Interest	11,128	-	-	11,128
Advertising	31,149	-	-	31,149
Repairs and maintenance	75,677	-	-	75,677
Other administrative	25,610	-	-	25,610
Office supplies	36,045	-	-	36,045
Postage	17,101	-	-	17,101
Printing	24,011	-	-	24,011
Professional fees	21,013	-	-	21,013
Taxes	16,695	-	-	16,695
Travel and training	7,597	-	-	7,597
Capital improvements	5,563,361	-	-	5,563,361
Total expenses	8,923,693	-	-	8,923,693
Change in net assets from Garden Operations	(655,289)	(2,029,520)	-	(2,684,809)
Live at the Garden:				
Concert revenues	1,514,686	390,420	-	1,905,106
Concert expenses	(1,394,728)	-	-	(1,394,728)
Net assets released from restrictions	274,905	(274,905)	-	-
Change in net assets from Live at the Garden	394,863	115,515	-	510,378
Total change in net assets	(260,426)	(1,914,005)	-	(2,174,431)
Net assets at beginning of year	92,055	2,363,206	1,937,625	4,392,886
Net assets at end of year	\$ (168,371)	\$ 449,201	\$ 1,937,625	\$ 2,218,455

See notes to financial statements.

Memphis Botanic Garden Foundation, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2014

Cash Flows from Operating Activities

Change in net assets	\$ (2,174,431)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	35,429
Provision for uncollectible receivables and present value discounts	23,531
Realized and unrealized gain on investments	(350,906)
Change in operating assets and liabilities:	
Receivables	(757,911)
Refundable income taxes	(78,338)
Inventories	(2,854)
Prepaid expenses	(134,307)
Accounts payable and accrued expenses	(108,238)
Construction contracts payable	909,853
Accrued salaries and vacations	(4,672)
Deferred revenue	357,064
Total adjustments	<u>(111,349)</u>
Net cash used in operating activities	<u>(2,285,780)</u>

Cash Flows from Investing Activities

Reinvested interest and dividend income	(42,425)
Purchase of equipment	(80,314)
Sales of investments	125,842
Net cash provided by investing activities	<u>3,103</u>

Cash Flows from Financing Activities

Net borrowings on bank line of credit	2,126,771
Net cash provided by financing activities	<u>2,126,771</u>

Net decrease in cash (155,906)

Cash and cash equivalents at beginning of year 1,081,459

Cash and cash equivalents at end of year \$ 925,553

Supplemental disclosure of cash flow information:

Interest paid	<u>\$ 11,128</u>
Income taxes paid	<u>\$ 80,000</u>

See notes to financial statements.

Memphis Botanic Garden Foundation, Inc.

Notes to Financial Statements

June 30, 2014

1. Summary of Significant Accounting Policies

Nature of Operations

Memphis Botanic Garden Foundation, Inc. (the "Foundation") is a not-for-profit corporation in Memphis, Tennessee. The purpose of the Foundation is to stimulate interest and promote education in horticulture, to promote public interest in the conservation of natural resources, and to assist in the preservation, development and management of the Memphis Botanic Garden (the "Garden"), which is owned by the City of Memphis.

Basis of Presentation

The accompanying financial statements reflect the results of all programs operated and controlled by the Foundation. The financial statements are prepared in accordance with the American Institute of Certified Public Accountants Audit Guide, *Not-for-Profit Entities*, which is in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Support and Revenue

The Foundation receives support and revenue from a variety of sources including private contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Restricted contributions, and investment income that is limited to specific uses by donor-imposed restrictions, are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets when the restriction expires. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

1. Summary of Significant Accounting Policies (continued)

Support and Revenue (continued)

Conditional promises to give are not included as revenue until the conditions are substantially met. The Foundation had received conditional promises to give of \$400,000 at June 30, 2014, related to a multi-year sponsorship for the Garden Concert Series.

Membership revenue is deferred over the term of the membership, typically one year. Advance ticket sales relating to the Garden Concert Series are deferred over the period of the concert series.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization that is not a private foundation. However, the Foundation is subject to unrelated business income taxes, related to the Garden Concert Series and facility rentals. The Foundation has refundable income taxes receivable at June 30, 2014 of \$78,338, which represents \$80,000 of tax payments made less the actual taxes incurred of \$1,662 for the year ended June 30, 2014. The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2014. Tax years 2011 and after remain subject to examination for the Foundation's tax jurisdictions.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased.

At times cash balances may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Equipment and Capital Improvements

Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 3 to 5 years. Repair and maintenance costs are expensed as incurred. Accumulated depreciation at June 30, 2014 was \$237,402.

The Foundation's capital improvements for buildings and grounds are expensed as incurred since the assets ultimately pass to the City of Memphis. For tax purposes these assets are capitalized and expensed over their tax depreciable life.

Fair Value of Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Inventories

Inventories are stated at the lower of cost, determined by the average cost method, or market.

Advertising Costs

Advertising costs are expensed as incurred. Such amounts are included in advertising expense on the accompanying statement of activities.

Subsequent Events

The Foundation evaluated the effect subsequent events would have on the financial statements through January 9, 2015, which is the date the financial statements were available to be issued.

2. Contributions Receivable

Unconditional promises to give, related to capital campaigns, at June 30, 2014, are as follows:

Receivable in less than one year	\$ 954,680
Receivable in one to five years	<u>1,923,049</u>
Total	2,877,729
Less discount to net present value	<u>(51,176)</u>
	<u>\$ 2,826,553</u>

Pledges receivable are discounted at a rate of .77% in 2014.

Approximately 49% of the Foundation's pledge receivable balance at June 30, 2014 was due from three donors.

The Foundation also has a sponsorship pledge receivable in the amount of \$50,000 which is included in Garden Concert Series receivables. The remaining pledge is expected to be paid in fiscal 2015.

3. Fair Value Measurements

In 1999, the Foundation created the Memphis Botanic Garden Community Foundation Fund (the "Fund") with The Community Foundation of Greater Memphis, Inc. ("The Community Foundation"). The Foundation can request distributions of interest and/or principal related to the transfer of assets to The Community Foundation. The balance in the Fund at June 30, 2014, represents principle and accumulated net investment earnings.

There is limited or no observable market data for some of the prices of investments that are held in the Community Foundation Balanced Pool (the "Pool"), and the resulting fair values of these securities are categorized as Level 3. The Pool is invested in equities, fixed income securities, cash equivalents, alternative investments, and real estate securities. Management of Community Foundation employs an independent NAV calculation agent to calculate NAV based on valuations received from the underlying investment managers.

There were no changes during fiscal 2014 to the Foundation's valuation techniques used to measure asset fair values on a recurring basis.

The following table illustrates the activity of Level 3 assets for fiscal 2014:

Fair value at July 1, 2013	\$ 2,600,745
Realized and Unrealized gain	350,906
Reinvested interest and dividend income	42,425
Sale of assets	<u>(125,842)</u>
Fair value at June 30, 2014	<u>\$ 2,868,234</u>

There were no unfunded commitments or liquidation restrictions on these investments.

4. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2014:

Garden Improvements	\$ 36,016
Scholarship Fund	22,765
Garden Concert Series	<u>390,420</u>
	<u>\$ 449,201</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors. The amounts released of \$274,905, \$25,000, and \$2,039,101 in fiscal 2014 related to the Garden Concert Series, Garden Improvements, and the Live Capital Campaign, respectively.

5. Endowment

The Foundation's endowment consists of four individual funds established for a variety of purposes. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. The Foundation generally appropriates and spends the temporary restricted assets in the same year; therefore, there are no temporarily restricted endowment funds at year end. As of June 30, 2014, all of the Foundation's endowment funds were permanently restricted. In fiscal 2014, the endowment fund had \$393,331 of investment income, which was appropriated for expenditures.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. At June 30, 2014, all of the endowment funds are invested in the Community Foundation as further discussed in Note 3.

6. Contributed Services

A substantial number of volunteers, as well as employees of the City of Memphis, have made significant contributions of their time to the ongoing maintenance of the Memphis Botanic Gardens and the operations of the Foundation. The value of contributed services meeting the requirements for recognition in the financial statements is not material and has not been recorded.

7. Related Party Transactions

The Foundation received management fees from the City of Memphis in the amount of \$137,920 during fiscal 2014.

8. Exhibit Collection

In conformity with the practice of many not-for-profit organizations, items purchased or donated for use in the permanent or teaching collections of the Foundation are not included in the statement of financial position or statement of activities.

9. Line of Credit

The Foundation has a \$350,000 line of credit agreement with a bank, of which \$320,049 was outstanding at June 30, 2014. The line, which bears interest at the bank's prime rate (3.25% at June 30, 2014), is collateralized by the assets of the Foundation. The line of credit expires on March 28, 2015, at which time management expects to renew the line of credit with the bank.

During 2014, the Foundation obtained a \$4,000,000 construction line of credit from a bank to fund the construction of the Live at the Garden Stage, of which \$2,143,946 was outstanding at June 30, 2014. The line, which bears interest at a fixed rate of 2.55%, was converted to a term note payable on October 1, 2014 at the balance on that date of \$3,687,547. This note payable is collateralized by the assets of the Foundation. The term note retained the annual fixed interest rate of 2.55%, which is due monthly. The term note requires that all capital campaign proceeds be remitted by the Foundation to the bank to reduce the principal balance. The outstanding principal balance under the note shall be reduced by an amount equal to or less than \$3,000,000 at June 30, 2015, \$2,100,000 at June 30, 2016, \$1,600,000 at June 30, 2017, and paid in full by June 30, 2018.

10. Retirement Plan

The Foundation sponsors a defined contribution retirement plan (the "401(k) Plan") covering employees meeting certain age and service requirements. The Foundation has the option to make matching contributions to the Plan on behalf of each participant. Foundation matching contributions to the 401(k) Plan were \$15,356 for fiscal 2014.

11. Commitments

At June 30, 2014, the Foundation has various commitments, totaling approximately \$459,000, related to the Garden Concert Series, through October 2014.