



National Tropical Botanical Garden

Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2018

Independent Auditors' Report

The Board of Trustees
National Tropical Botanical Garden:

We have audited the accompanying financial statements of National Tropical Botanical Garden (the Garden), which comprise the balance sheet as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 National Tropical Botanical Garden as of December 31, 2018, and the 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.

Emphasis of Matter

As discussed in Note 1, the Garden adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Non-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to January 1, 2018. Our opinion is not modified with respect to this matter.

KKDL Y LLC

Honolulu, Hawaii
June 26, 2019

NATIONAL TROPICAL BOTANICAL GARDEN

Balance Sheet

December 31, 2018

Assets

Cash	\$ 2,306,194
Certificates of deposit	200,000
Contributions receivable	360,205
Government contracts and grants receivable	82,301
Merchandise inventories	102,440
Prepaid expenses and other	387,615
Net land, buildings, equipment, and library	35,680,341
Botanical art collection	465,220
Land held for preservation	980,000
Land held for investment	1,335,000
Loy McCandless Marks Botanical Library	8,000,000
Investments	17,080,660
Beneficial interest in perpetual trusts	2,059,349
Total assets	<u>\$ 69,039,325</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable, accrued expenses, and other	\$ 981,795
Debt	404,736
Charitable gift annuity obligation	463,570
Total liabilities	<u>1,850,101</u>
Net assets:	
Without donor restrictions:	
Undesignated	31,872,391
Designated by the board	1,019,435
With donor restrictions	34,297,398
Total net assets	<u>67,189,224</u>
Total liabilities and net assets	<u>\$ 69,039,325</u>

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statement of Activities

Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions and bequests	\$ 2,331,981	\$ 2,592,522	\$ 4,924,503
Tour and visitor center sales, net of costs of goods sold of \$307,597	3,290,213	-	3,290,213
Government and other contracts	590,740	-	590,740
Investment return (loss), net	82,226	(578,804)	(496,578)
Decrease in beneficial interest in perpetual trusts	-	(282,528)	(282,528)
Allerton fees and reimbursements	597,762	-	597,762
Change in value of split interest agreement	-	(41,544)	(41,544)
Gain on sales of land and equipment	250,588	-	250,588
Other	657,907	-	657,907
Net assets released from restrictions	3,440,330	(3,440,330)	-
Total revenues, gains, and other support	11,241,747	(1,750,684)	9,491,063
Expenses:			
Program services:			
Gardens and preserves:			
McBryde	1,688,439	-	1,688,439
Limahuli	1,036,992	-	1,036,992
The Kampong	844,917	-	844,917
Allerton	431,336	-	431,336
Kahanu	427,210	-	427,210
Research and education:			
Visitor programs	2,189,778	-	2,189,778
Science and conservation	2,108,843	-	2,108,843
Education	233,121	-	233,121
Total program services	8,960,636	-	8,960,636
Supporting services:			
Administration and finance	1,456,755	-	1,456,755
Development	724,343	-	724,343
Total supporting services	2,181,098	-	2,181,098
Total expenses	11,141,734	-	11,141,734
Change in net assets	100,013	(1,750,684)	(1,650,671)
Net assets at beginning of year	32,791,813	36,048,082	68,839,895
Net assets at end of year	\$ 32,891,826	\$ 34,297,398	\$ 67,189,224

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Research and Education			Supporting Services		Total
	Gardens and Preserves		The Kampong	Allerton	Kahanu	Visitor programs	Science and conservation	Education	Administration and finance	Development	
	McBryde	Limahuli									
Salaries	\$ 617,280	\$ 499,284	\$ 254,130	\$ 244,618	\$ 201,170	\$ 933,876	\$ 777,743	\$ 120,551	\$ 722,336	\$ 336,621	\$ 4,707,609
Payroll taxes and employee benefits	237,205	175,938	84,325	95,859	65,555	378,271	248,108	46,713	160,182	113,469	1,605,625
Depreciation	397,992	66,502	146,442	10,706	49,584	109,179	314,049	29,308	6,217	1,501	1,131,480
Professional fees	98,058	45,571	49,238	30,017	25,338	23,681	405,360	8,206	90,874	25,488	801,831
Occupancy	129,700	45,010	138,416	31,991	8,433	17,649	118,056	-	5,324	-	494,579
Employee travel and meals	4,489	21,460	8,941	-	6,731	4,979	51,170	7,492	194,116	22,482	321,860
Supplies	35,450	56,240	38,603	9,571	24,605	27,764	67,307	2,704	15,594	23,864	301,702
Equipment rent and maintenance	119,302	26,434	22,486	5,276	20,082	75,874	5,934	3,426	16,331	992	296,137
Insurance	24,749	16,200	51,796	2,688	8,721	60,395	54,912	9,564	35,088	6,552	270,665
Special events	2,226	4,555	29,098	-	3,320	29,457	16,240	162	15,624	93,552	194,234
Advertising and marketing	-	-	-	-	-	188,532	-	-	-	-	188,532
Guest meals and supplies	875	-	-	-	-	163,707	-	-	-	-	164,582
Postage and printing	516	3,973	2,987	-	985	33,521	7,423	258	13,440	54,383	117,486
Bank charges	188	8	5,061	-	113	80,638	810	125	11,638	9,323	107,904
Telephone and internet	11,447	18,377	5,700	368	7,100	18,344	11,756	2,434	25,876	5,069	106,471
Staff training	4,150	5,643	3,130	242	2,678	9,434	6,698	1,988	43,597	7,275	84,835
Computer and software	-	668	2,148	-	1,329	6,573	564	88	45,521	18,947	75,838
Licenses, permits and fees	4,812	387	1,152	-	1,363	26,238	278	42	36,698	238	71,208
Helicopter	-	50,450	-	-	-	-	11,173	-	-	-	61,623
Dues and publications	-	292	1,264	-	103	1,666	11,262	60	18,299	4,587	37,533
	<u>\$ 1,688,439</u>	<u>\$ 1,036,992</u>	<u>\$ 844,917</u>	<u>\$ 431,336</u>	<u>\$ 427,210</u>	<u>\$ 2,189,778</u>	<u>\$ 2,108,843</u>	<u>\$ 233,121</u>	<u>\$ 1,456,755</u>	<u>\$ 724,343</u>	<u>\$ 11,141,734</u>

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statement of Cash Flows

Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ (1,650,671)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,131,480
Net realized and unrealized loss on investments	947,155
Contributions of investment securities	(86,525)
Contributions restricted for long-term investment	(250,514)
Decrease in beneficial interest in perpetual trusts	282,528
Change in value of split interest agreement	41,544
Gain on sale of land and equipment	(250,588)
Changes in assets and liabilities:	
Contributions receivable	110,198
Government contracts and grants receivable	83,564
Merchandise inventories	(1,453)
Prepaid expenses and other	(110,067)
Accounts payable, accrued expenses, and other	67,121
Net cash provided by operating activities	<u>313,772</u>
Cash flows from investing activities:	
Purchases of certificates of deposit	(200,000)
Purchases of land, buildings, equipment, and library	(1,023,761)
Proceeds from sale of land and equipment	250,588
Proceeds from sale of investments	10,247,113
Purchases of investments	(9,512,393)
Net cash used in investing activities	<u>(238,453)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for investment in capital projects	250,514
Principal payments on debt	(42,575)
Payments of charitable gift annuity obligation	(81,600)
Net cash provided by financing activities	<u>126,339</u>
Net increase in cash	201,658
Cash at beginning of year	<u>2,104,536</u>
Cash at end of year	<u>\$ 2,306,194</u>
Supplemental disclosure of cash flow information:	
Noncash financing activity:	
Contribution of investment securities	\$ 86,525

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2018

(1) Summary of Significant Accounting Policies

General

National Tropical Botanical Garden (the Garden) was chartered by the 88th Congress on August 19, 1964 under Public Law 88-449. Its purpose is to establish and operate, for the benefit of the people of the United States, a tropical botanical garden, together with such related facilities as are appropriate and necessary for encouraging and conducting research in basic and applied tropical botany. The majority of the Garden's operations are conducted in the state of Hawaii. The Garden also operates a botanical garden in the state of Florida. The Garden has no power to issue shares of stock or to pay dividends.

The Garden's program services are classified in two major categories, (1) gardens and preserves and (2) research and education.

Gardens and preserves includes the operations at the McBryde, Limahuli, Kahanu, and Allerton gardens, located in the state of Hawaii. The Kampong garden is located in Florida.

Research and education programs include visitor programs and activities in Hawaii and Florida. The Garden also conducts science and conservation programs, as well as educational programs in fulfillment of its mission.

Financial Statement Presentation

Net assets and revenues, gains, and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Garden and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Garden, the passage of time, or must be maintained in perpetuity by the Garden.

Effective on January 1, 2018, the Garden adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit-Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted improvements to the not-for-profit financial reporting model. The Garden's net assets previously reported as temporarily restricted and permanently restricted, are now reported as net assets with donor restrictions. Likewise, the Garden's net assets previously reported as unrestricted, are now reported as net assets without donor restrictions. The ASU has been applied retrospectively to January 1, 2018, which increased net

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Notes to Financial Statements

December 31, 2018

assets without donor restrictions by \$3,015,868 and decreased net asset with donor restrictions by \$3,015,868, as a result of the reclassifications of underwater endowment funds as required under ASU 2016-14.

Cash Equivalents

For purposes of the statement of cash flows, the Garden considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. At various times during 2018, and as of the balance sheet date, deposits were in excess of federally insured limits. As of December 31, 2018, the Garden held no cash equivalents.

Merchandise Inventories

Merchandise inventories consist of books and other botanical-related items and are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included as a component of net investment return (loss) in the statement of activities.

Net investment return (loss) is comprised of interest and dividend income, realized and unrealized gains and losses, less investment expenses and is reported in the accompanying statement of activities as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law.

Land, Buildings, Equipment, and Library

Land, buildings, equipment, and library are capitalized at cost, if purchased or at estimated fair value at the date of the donation. Assets contributed for which the fair value is not determinable at the date of donation are recorded, as contributions, if and when such values are determined.

The Garden reports gifts of land, buildings, equipment, and the library as contributions with no donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Garden reports expirations of donor restrictions when the acquired long-lived assets are placed in service.

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Depreciation of long-lived assets is calculated on the straight-line basis over estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	20–50
Computers	3
Furniture, fixtures, and equipment	8
Library	10
Land improvements	15

Botanical Art Collection

Art objects are capitalized at cost, if purchased, or at estimated fair value, if determinable, at the date of donation.

Contributions

Contributions and unconditional promises to give are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at estimated net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions and bequests.

The Garden reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Perpetual Trusts

The Garden is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as investment return, net and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

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Notes to Financial Statements

December 31, 2018

Fair Value Measurements

The Garden measures its financial assets, financial liabilities, and nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring and nonrecurring basis. Fair value is defined as 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.

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Garden first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Functional Allocation of Expenses

The costs of program and supporting services activities of the Garden have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses that are attributed to more than one program or supporting function are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits, which are allocated based on time and effort. Certain insurance costs are allocated based on a square footage basis or other management estimates.

Prepaid Expenses and Other

Prepaid expenses and other assets includes prepaid rent, prepaid insurance, and prepaid meeting costs.

Income Taxes

The Garden is an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. However, the Garden is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

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Notes to Financial Statements

December 31, 2018

The Garden determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more-likely than-not threshold, the tax amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority.

Use of Estimates

The preparation of the financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management of the Garden to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the valuation of contributions receivable; government contracts and grants receivable; merchandise inventories; land, buildings, equipment, and library; land held for preservation; land held for investment; investments; beneficial interest in perpetual trusts and the charitable gift annuity obligation.

New Accounting Standards

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update intends to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for the Garden's annual reporting period beginning after December 15, 2018. The Garden is currently evaluating the effect that ASU 2018-08 will have on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. After the adoption of ASU 2018-13, an entity will no longer be required to disclose the amount of and reasons of transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements. The ASU 2018-13 is effective for the Garden's reporting period beginning January 1, 2020. The Garden is currently evaluating the effect that ASU 2018-13 will have on its financial statements.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The amendments in this update include the modification of the definition of the term collections to align with that of the definition of the American Alliance of Museums' *Code of Ethics for Museums* and to clarify the accounting and disclosure guidance

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Notes to Financial Statements

December 31, 2018

for collections. The ASU 2019-03 is effective for the Garden's reporting period beginning after December 15, 2019. The Garden is currently evaluating the effect that ASU 2019-03 will have on its financial statements.

Subsequent Events

The Garden has evaluated subsequent events through June 26, 2019, the date at which the accompanying financial statements were available to be issued, and determined that there are no other items to disclose.

(2) Contributions Receivable

Contributions receivable consisted of the following at December 31, 2018:

Contributions to be received within one year	\$ 262,072
Contributions to be received in one to five years	<u>100,000</u>
	362,072
Less discount to present value (at varying rates from 1.38% to 1.8%)	<u>(1,867)</u>
	<u><u>\$ 360,205</u></u>

(3) Investments

Summary of Investments

Investments held at December 31, 2018 are summarized as follows:

Cash and cash equivalents	\$ 503,527
Equity securities:	
U.S. equity securities	9,546,950
International equity securities	1,698,285
Real estate securities	85,360
Mutual funds	2,092,703
Corporate bonds	2,389,446
U.S. government and agency securities	<u>764,389</u>
	<u><u>\$ 17,080,660</u></u>

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Notes to Financial Statements

December 31, 2018

Fair Value Measurements

The Garden follows the provisions in the Financial Instruments Topic 825 of the FASB Accounting Standards Codification regarding fair value measurements. The Garden determines fair value based on the current amount that would be exchanged between willing parties in the principal or most advantageous market, other than in a forced liquidation. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in the one of the following levels:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable, are supported by little or no market activity and are significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level of input that is significant to the fair value measure in its entirety. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

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Notes to Financial Statements

December 31, 2018

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2018:

	Investments at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash and cash equivalents	\$ 503,527	\$ -	\$ -	\$ 503,527
Equity securities:				
U.S. equity securities	9,546,950	-	-	9,546,950
International equity securities	1,698,285	-	-	1,698,285
Real estate securities	85,360	-	-	85,360
Mutual funds	2,092,703	-	-	2,092,703
Corporate bonds	-	2,389,446	-	2,389,446
U.S. government and agency securities	-	764,389	-	764,389
Beneficial interest in perpetual trust	-	2,059,349	-	2,059,349
	\$ 13,926,825	\$ 5,213,184	\$ -	\$ 19,140,009

The Garden's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1, 2, or 3 for the year ended December 31, 2018.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Cash and cash equivalents, equity securities, real estate securities and mutual funds are traded in active markets; quoted market prices for identical assets are obtained, and fair values are recorded on a recurring basis.

Corporate bonds and U.S. government and agency securities are traded in active markets; quoted market prices are obtained for similar assets, and fair values are recorded on a recurring basis.

Beneficial interest in perpetual trust are recorded at fair value on a recurring basis based on current financial information provided by trustees.

Fair value of the charitable gift annuity obligation as of December 31, 2018 was \$463,570. Fair value is determined as the present value of estimated future payments based on life expectancy of the beneficiary.

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Notes to Financial Statements

December 31, 2018

(4) Land, Buildings, Equipment, and Library

A summary of land, buildings, equipment, and library as of December 31, 2018 is as follows:

The Kampong:	
Land and land improvements	\$ 4,203,309
Buildings	2,480,491
Furniture, fixtures, and equipment	499,685
Construction in progress	<u>38,770</u>
Total The Kampong	<u>7,222,255</u>
Hawaii:	
Land and land improvements	20,008,044
Building and building improvements	21,733,896
Furniture, fixtures, and equipment	6,376,065
Library	401,381
Construction in progress	<u>732,398</u>
Total Hawaii	<u>49,251,784</u>
	56,474,039
Less accumulated depreciation	<u>(20,793,698)</u>
	<u>\$ 35,680,341</u>

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Notes to Financial Statements

December 31, 2018

(5) Debt

Debt at December 31, 2018 consists of the following:

Noninterest-bearing note payable to Blue Planet Foundation dba Wefficiency; quarterly principal payments of \$6,425; payable in full on February 1, 2021	\$ 52,236
Noninterest-bearing note payable to Kauai Island Utility Cooperative; monthly principal payments of \$3,750, commencing November 2018, secured by a stand-by letter for \$360,000; payable in full on November 10, 2026	352,500
	<u>\$ 404,736</u>

The Garden has a line of credit agreement with a bank for \$600,000, of which \$360,000 is reserved to support the stand-by letters of credit described above. Draws on the line of credit accrue interest at 0.25% over the bank rate (5.75% at December 31, 2018) and is secured by certain assets of the Garden. The agreement matures on September 1, 2019. There were no outstanding amounts due on the line of credit as of December 31, 2018.

The aggregate maturities of debt are as follows:

Year Ending December 31:	
2019	\$ 70,700
2020	70,700
2021	45,836
2022	45,000
2023	45,000
Thereafter	127,500
	<u>\$ 404,736</u>

(6) Charitable Gift Annuity Obligation

In January 2015, the Garden received a donation of \$1,200,000 in conjunction with a charitable gift annuity agreement. The agreement provides for quarterly payments to the beneficiary by the Garden of \$20,400 over the lifetime of the beneficiary. As of December 31, 2018, the Garden has recorded a liability of \$463,570, representing the present value of the estimated future obligation under this agreement.

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Notes to Financial Statements

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(7) Contributions

Waterhouse Trust

During 2018, the Garden, as an income beneficiary of the Waterhouse Trust, which was founded in 1985 by approximately \$5,300,000 of marketable securities and a partial interest in land from the Waterhouse estate, received distributions from the trust amounting to \$402,113, which are recorded as contributions without donor restrictions in the accompanying statement of activities. Distributions from the trust continue until the death of the last of the grantor's nieces and nephews, at which time certain revisions will be made relating to distributions to income beneficiaries. As the financial impact of such revisions cannot be determined at this time, the present value of the estimated future cash receipts from the trust's assets has not been recorded in the financial statements.

Allerton Trusts

The Garden has a beneficial interest in two perpetual trusts that were created by Mr. John Wyatt Gregg Allerton in 1969 and 1974. In 2018, the Garden received distributions from the trusts amounting to \$110,901, which are recorded as investment return (loss), net, without donor restrictions in the accompanying statement of activities. Distributions from the trusts, which continue in perpetuity, are to be used by the Garden for the promotion and advancement of botanical research and education on the island of Kauai. The Garden has recorded its interest in the trusts as a net asset with donor restrictions and is reported as a beneficial interest in perpetual trusts on the balance sheet. As of December 31, 2018, the fair value of the trusts was \$2,059,349.

The Kampong Fund

In 1984, the Kampong Fund (Fund), a state of Washington corporation, was organized to manage and financially support the Kampong estate during the lifetime of Mrs. Edward Sweeney. With the passing away of Mrs. Sweeney, the Fund was liquidated and dissolved. Assets with a fair value of \$3,174,234 were transferred to and became the property of the Garden to be used for the maintenance and upkeep of the Kampong estate. The Garden recorded the assets from the Fund as net assets with donor restrictions. The provisions of the asset transfer require that should the Garden sell the Kampong estate, the proceeds from the sale and any remaining assets be held in perpetuity with investment income used to advance the study of botanical science in the mainland United States.

Loy McCandless Marks Botanical Library

On August 1, 1998, the botanical library of the Loy McCandless Marks Revocable Living Trust was distributed to the Garden. The terms of the distribution require that, among other items, the Garden repair and maintain the library assets and that the library assets be housed in the Garden's library at its headquarters in Kalaheo, Kauai. Further, the terms of the distribution

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stipulate that the Garden's library be reconfigured for various upgrades to ensure preservation of the library assets and that sales or exchanges of the library assets are prohibited, except under unusual circumstances. The library assets were appraised by a third party at a collective value of approximately \$8,000,000 at the date of the contribution. The Garden recorded the botanical library assets as net assets with donor restrictions.

Eleanor Evans Crum Trust

In March 2001, the Garden was named as beneficiary of the Eleanor Evans Crum Trust. Another charitable organization and the two surviving nieces of Eleanor Evans Crum were also named as beneficiaries. The trust did not meet certain requirements for exemption from federal estate tax, and accordingly, a petition was filed in the respective court to divide the trust into four separate trusts, each with an equal share of the residual assets. In July 2002, the court entered a final order approving the division of the residual assets into four trusts, with each of the beneficiaries as being named beneficiary of one of the four separate trusts. Before and during the process of restructuring, the net income of the trust was payable in equal annual installments to the named beneficiaries. During 2018, the Garden received distributions from the trust of \$140,914, which are recorded as contributions without donor restrictions in the accompanying statement of activities. Distributions from the trusts continue until the death of the last of the two individual beneficiaries, at which time each trust will terminate and the balance of the remaining residual assets will be distributed to the Garden and the named charitable organization. As the financial information relating to the trust and the balance of the remaining residual assets cannot be determined at this time, the present value of the estimated future cash receipts from the trust assets has not been recorded in the accompanying financial statements.

(8) Defined Contribution Plan

The Garden has a defined contribution retirement plan (the Plan) that is contributory and available to all qualified employees. Benefits are funded through life insurance annuity contracts and allows discretionary employer contributions. The Garden contributed \$135,066 to the Plan for eligible employees for the year ended December 31, 2018.

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(9) Sale of Land

In January 2015, in accordance with an agreement of sale and purchase and addendums thereto (the Agreement), the Garden sold certain land parcels adjacent to The Kampong in Miami, Florida to an unrelated third-party Buyer for \$2,500,000. Upon closing of the sale, the Garden received proceeds totaling \$2,250,000. In accordance with the Agreement, as amended, the receipt of the remaining \$250,000 was conditional on the Buyer obtaining certain replat approvals and other assurances regarding the Buyer's plans for improvements to the parcels. In 2018, the condition was met and the Garden received the \$250,000, which is included in gain on sales of land and equipment in the accompanying statement of activities.

In conjunction with the sale, the Board of Trustees designated a portion of the proceeds for an endowment for The Kampong. As of December 31, 2018, the balance of this board designated net asset without donor restrictions is \$1,019,435.

(10) Allerton Gardens

In 1991, the Garden entered into a management agreement with the trustee of the Allerton Gardens Trust (Trust) that requires the Garden to operate and maintain Allerton Gardens in accordance with written plans established by the Garden and Allerton Gardens Trust's trustee (Trustee). The initial plan included the repair and restoration, installation of new plantings, and construction of improvements to Allerton Gardens.

Effective January 2005, the original management agreement was amended wherein the Garden is obligated to pay \$1,500 monthly to the Trustee with an annual management fee to be paid to the Garden of \$221,450. Further, the Trust reimburses the Garden for most reasonable costs and expenses to operate Allerton Gardens. These costs include payments to contractors and suppliers; charges for utility services; premiums for insurance policies; maintenance; repair and operating costs; costs of improvements; costs of materials; equipment, supplies, and tools; costs of plantings; travel expenses; professional expenses approved by the Trustee; and the salaries and fringe benefits of Garden employees assigned full time to carry out the responsibilities under the management agreement. The amended agreement expires on December 31, 2028.

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(11) Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 are summarized as follows:

Subject to the passage of time or expenditure for specified purpose:	
General support for future periods	\$ 40,000
Capital projects	1,328,312
Charitable gift annuity and reserve	762,775
Science and conservation	482,863
The Breadfruit Institute	397,515
Limahuli Garden & Preserves	87,116
Education	84,979
The Kampong	30,543
Kahanu Garden	15,858
Seedbank support	8,005
Other	<u>79,076</u>
Total subject to the passage of time or expenditure for specified purpose	<u>3,317,042</u>
Endowment funds:	
General activities	3,625,548
McBryde operations	3,570,263
Research personnel	2,903,359
Education and memorials	2,545,275
The Kampong operations	2,500,000
Conservation	1,000,000
Limahuli Garden operations	600,000
Landscaping personnel	403,615
Botanical research center	20,000
The Kampong director	<u>7,500</u>
	17,175,560
Accumulated net deficit	<u>(2,348,536)</u>
Total endowment funds	<u>14,827,024</u>
Perpetual trusts, distributions available to support general activities	<u>2,059,349</u>
Perpetual in nature, not subject to appropriation or expenditure:	
Loy McCandless Marks Botanical Library	8,000,000
The Kampong Estate	3,778,983
Land – Limahuli Garden	1,335,000
Conservation easement	<u>980,000</u>
	<u>14,093,983</u>
Total net assets with donor restrictions	<u>\$ 34,297,398</u>

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(12) Governing Board Designations

The Garden's governing board has designated net assets without donor restrictions totaling \$1,019,435 for quasi-endowment, subject to spending policy and appropriation to support The Kampong operations.

(13) Endowments

Exclusive of the Garden's perpetual trusts and other perpetual net assets, not subject to appropriation or expenditure, the Garden's endowment consists of 10 individual funds established by donors to provide funding for general operations and specific purposes. The Garden's endowment also includes certain net assets without donor restrictions that have been designated for the endowment by the Board of Trustees. At December 31, 2018, the Garden had the following endowment net asset composition by type of fund:

	With donor restrictions				Total Endowment
	Without donor restrictions	Original gift	Accumulated gains (losses)	Total	
Board-designated endowment funds	\$ 1,019,435	\$ -	\$ -	\$ -	\$ 1,019,435
Donor-restricted endowment funds:					
Underwater funds	-	13,605,297	(3,812,323)	9,792,974	9,792,974
Other funds	-	3,570,263	1,463,787	5,034,050	5,034,050
	\$ 1,019,435	\$ 17,175,560	\$ (2,348,536)	\$ 14,827,024	\$ 15,846,459

For the years ended December 31, 2018, the changes in endowment net assets are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 1,097,833	\$ 16,010,616	\$ 17,108,449
Investment return, net	(31,999)	(535,076)	(567,075)
Appropriation of endowment assets for expenditure	(46,399)	(648,516)	(694,915)
Endowment net assets, end of year	\$ 1,019,435	\$ 14,827,024	\$ 15,846,459

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Interpretation of Relevant Law

The Garden is subject to Hawaii's enacted version of the Uniform Prudent Management of Institutional Funds Act (HUPMIFA) 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 of Trustees appropriates such amounts for expenditure. 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 Garden has interpreted HUPMIFA as not requiring maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As of the interpretation, when reviewing its donor-restricted endowment funds, the Garden considers a fund to be underwater if the fair value of the fund is less than the sum of (a) 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. The Garden has interpreted HUPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with HUPMIFA, the Garden considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The purposes of the organization and the donor-restricted endowment fund
2. General economic conditions
3. The possible effect of inflation or deflation
4. The expected total return from income and the appreciation of investments
5. Other resources of the organization
6. The investment policies of the Garden
7. The duration and preservation of the fund

Description of Amounts Classified as Net Assets with Donor Restrictions

Underwater Endowment Funds

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 HUPMIFA requires the Garden to retain as a fund of perpetual duration (underwater endowments). Deficiencies of this nature exist in nine donor-restricted endowment funds, with an original gift value of \$13,605,297, a current fair value of \$9,792,974, and a deficiency of \$3,812,323 as of December 31, 2018.

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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 programs that were deemed prudent by the Garden.

Return Objectives and Risk Parameters

The Garden has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Garden must hold in perpetuity.

Strategies Employed for Achieving Objectives

Endowment assets will be invested in a well-diversified asset mix, which are determined by carefully selected investment portfolio managers, who are intended to provide sufficient liquidity to make annual distributions as per the endowment spending policy, while growing the fund, if possible.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Under the terms of the endowment fund, the Garden has a policy of appropriating, for financial aid use, amounts not to exceed 4.5% of the investment portfolio (calculated on the basis of a three-year rolling average as of January 1st, unless otherwise specified by the donor). The policy further states that no distributions from any separate endowment fund may be made if the effect of such distribution would reduce the balance of that fund to below 50% of the historic dollar value. In establishing this policy, the Garden considered the long-term expected return on its endowment. Accordingly, over the long term, the Garden expects the current spending policy to allow its endowment to grow at a rate that exceeds the spending rate.

The Garden has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$350,480 from underwater endowment funds during the year, which represents 4.5% of the three -year rolling average of the balance in each endowment.

During 2018, the Garden expended \$648,516 of endowment funds with donor restrictions.

(14) Liquidity and Availability of Funds

The Garden regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

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For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Garden considers all expenditures related to its ongoing activities of research, conservation, and education to be general expenditures. Amounts available include the Board approved appropriation of the endowment funds for the following year, as well as donor-restricted amounts that are available for expenditure in the following year.

The Garden's financial assets available for general expenditure within one year of the balance sheet date is comprised of the following:

Cash	\$ 1,510,069
Certificates of deposit	200,000
Contributions receivable	262,072
Government contracts and grants receivable	82,301
Other assets	165,632
Endowment spending-rate distributions and appropriations	<u>599,206</u>
	<u>\$ 2,819,280</u>

Although the Garden does not intend to spend from the board-designated endowment of \$1,019,435, this amount could be made available, if necessary, with action by the Board of Trustees. The Garden also has an unsecured \$600,000 line of credit of which \$240,000 is available for general obligations, if needed.

(15) Commitments and Contingencies

In the normal course of operations, the Garden is subject to potential claims and litigation. Management believes that such matters will not have a material adverse effect on the Garden's financial position.