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Consolidated Financial Statements, 2003/2004

Missouri Botanical Garden

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MISSOURI BOTANICAL GARDEN

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2004 and 2003



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Missouri Botanical Garden:

We have audited the accompanying consolidated statements of financial position of the Missouri Botanical Garden (a perpetual trust established by Henry Shaw and authorized by the General Assembly of the State of Missouri) as of December 31, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Missouri Botanical Garden's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Botanical Garden as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

St. Louis, Missouri
March 24, 2005

MISSOURI BOTANICAL GARDEN

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2004 and 2003

	2004	2003
ASSETS:		
Cash and cash equivalents	\$ 7,265,344	\$ 10,334,270
Grants receivable	1,568,324	466,590
Pledges receivable	10,838,311	10,774,025
Accrued interest and other receivables	3,001,230	1,153,898
Inventories, prepayments and other assets	1,946,669	2,150,160
Investments	81,965,123	75,799,643
Property and equipment, net of accumulated depreciation	77,542,553	76,545,789
TOTAL ASSETS	\$ 184,127,554	\$ 177,224,375
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,891,220	\$ 5,134,200
Refundable advances	6,469,207	4,909,566
Liability for gift annuity payments	2,984,728	2,868,828
Other	367,189	484,129
TOTAL LIABILITIES	14,712,344	13,396,723
NET ASSETS (LIABILITIES):		
Unrestricted-		
General operating - undesignated	106,620	1,471,401
Designated-		
Operating	(483,125)	(460,386)
Capital expenditures	63,692,996	63,659,608
Long-term investment	30,485,214	27,585,065
Total designated	93,695,085	90,784,287
Total unrestricted	93,801,705	92,255,688
Temporarily restricted	42,997,199	39,170,857
Permanently restricted	32,616,306	32,401,107
TOTAL NET ASSETS	169,415,210	163,827,652
TOTAL LIABILITIES AND NET ASSETS	\$ 184,127,554	\$ 177,224,375

The accompanying notes are an integral part of this statement.

MISSOURI BOTANICAL GARDEN
CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total Activities
	General Operating	Designated	Total			
PUBLIC SUPPORT AND REVENUES:						
Public support-						
Services provided for Botanical Garden Subdistrict	\$ 7,400,331	\$ -	\$ 7,400,331	\$ -	\$ -	\$ 7,400,331
Contributions, bequests, donations and memberships	5,192,200	498,359	5,690,559	9,637,187	215,199	15,542,945
Revenues-						
Admissions	1,568,023	-	1,568,023	-	-	1,568,023
Grants and contracts	-	5,600,294	5,600,294	1,182,876	-	6,783,170
Butterfly House sales	307,294	-	307,294	-	-	307,294
Garden Gate Shop sales	1,806,438	-	1,806,438	-	-	1,806,438
Little Shop Around the Corner sales	102,248	-	102,248	-	-	102,248
Overhead recovered from grants and contracts	276,093	(276,093)	-	-	-	-
Gain on property retirements, net	-	23,525	23,525	-	-	23,525
Other	1,666,787	127,315	1,794,102	-	-	1,794,102
Interest and dividend income, net-						
Endowment	1,041,111	-	1,041,111	215,936	-	1,257,047
Other investments	30,216	98,933	129,149	-	-	129,149
Net realized investment gains (losses) -						
Endowment	-	(437,124)	(437,124)	(8,815)	-	(445,939)
Allocation of previous endowment gain to operating	2,169,276	(2,169,276)	-	-	-	-
Other investments	(705)	(63,556)	(64,261)	(36)	-	(64,297)
Net unrealized investment gains -						
Endowment	-	5,457,188	5,457,188	1,037,614	-	6,494,802
Other investments	-	103,332	103,332	-	-	103,332
Net assets released from restrictions	-	8,404,277	8,404,277	(8,404,277)	-	-
TOTAL PUBLIC SUPPORT AND REVENUES	\$ 21,559,312	\$ 17,367,174	\$ 38,926,486	\$ 3,660,485	\$ 215,199	\$ 42,802,170

(Continued on following page)

The accompanying notes are an integral part of this statement.

MISSOURI BOTANICAL GARDEN

(Continued from previous page)

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total Activities
	General Operating	Designated	Total			
EXPENSES:						
Operating services-						
Horticulture	\$ 2,226,996	\$ 296,493	\$ 2,523,489	\$ -	\$ -	\$ 2,523,489
Research and library	3,959,498	4,567,278	8,526,776	-	-	8,526,776
Education	539,715	1,216,656	1,756,371	-	-	1,756,371
Shaw Nature Reserve	704,950	132,571	837,521	-	-	837,521
Education Shaw Nature Reserve	140,172	-	140,172	-	-	140,172
Gateway Center for Resource Efficiency	93,261	268,471	361,732	-	-	361,732
Garden Gate Shop	1,597,414	-	1,597,414	-	-	1,597,414
Center for Conservation and Sustainable Development	233,162	108,019	341,181	-	-	341,181
Professional services	-	1,026,531	1,026,531	-	-	1,026,531
Tower Grove House	6,447	8,458	14,905	-	-	14,905
Little Shop Around the Corner	84,277	-	84,277	-	-	84,277
Dana Brown Overnight Education Center	115,005	-	115,005	-	-	115,005
Neighborhood improvements	-	1,722,845	1,722,845	-	-	1,722,845
Butterfly House	1,246,085	-	1,246,085	-	-	1,246,085
Visitor services	219,465	-	219,465	-	-	219,465
Minimum pension liability expense	25,759	-	25,759	-	-	25,759
TOTAL PROGRAM SERVICES	11,192,206	9,347,322	20,539,528	-	-	20,539,528
Supporting Services-						
Administrative	5,571,962	645,835	6,217,797	-	-	6,217,797
Maintenance and improvements	2,444,484	1,043,487	3,487,971	-	-	3,487,971
Depreciation	-	3,171,905	3,171,905	-	-	3,171,905
Utilities	772,650	-	772,650	-	-	772,650
Security	658,509	-	658,509	-	-	658,509
Membership department	951,936	-	951,936	-	-	951,936
Development	697,542	701,182	1,398,724	-	-	1,398,724
Minimum pension liability expense	15,592	-	15,592	-	-	15,592
TOTAL SUPPORTING SERVICES	11,112,675	5,562,409	16,675,084	-	-	16,675,084
TOTAL EXPENSES	22,304,881	14,909,731	37,214,612	-	-	37,214,612
CHANGE IN NET ASSETS BEFORE TRANSFERS	(745,569)	2,457,443	1,711,874	3,660,485	215,199	5,587,558
PROPERTY TRANSFERS	(290,092)	290,092	-	-	-	-
TRANSFERS OF FUNDS	(329,120)	163,263	(165,857)	165,857	-	-
CHANGE IN NET ASSETS	(1,364,781)	2,910,798	1,546,017	3,826,342	215,199	5,587,558
NET ASSETS - BEGINNING OF YEAR	1,471,401	90,784,287	92,255,688	39,170,857	32,401,107	163,827,652
NET ASSETS - END OF YEAR	\$ 106,620	\$ 93,695,085	\$ 93,801,705	\$ 42,997,199	\$ 32,616,306	\$ 169,415,210

The accompanying notes are an integral part of this statement.

MISSOURI BOTANICAL GARDEN

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2003

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total Activities
	General Operating	Designated			
PUBLIC SUPPORT AND REVENUES:					
Public support-					
Services provided for Botanical Garden Subdistrict	\$ 6,500,319	\$ -	\$ 6,500,319	\$ -	\$ 6,500,319
Contributions, bequests, donations and memberships	10,176,692	1,225,396	11,402,088	4,266,146	16,426,188
Revenues-					
Admissions	1,514,660	-	1,514,660	-	1,514,660
Grants and contracts	-	4,298,255	4,298,255	2,331,961	6,630,216
Butterfly House sales	294,924	-	294,924	-	294,924
Garden Gate Shop sales	1,625,921	-	1,625,921	-	1,625,921
Overhead recovered from grants and contracts	349,501	(349,501)	-	-	-
Gain (loss) on property retirements, net	-	32,767	32,767	(36,414)	(3,647)
Other	1,268,868	2,117	1,270,985	-	1,270,985
Interest and dividend income, net-					
Endowment	1,080,015	-	1,080,015	245,550	1,325,565
Other investments	15,854	115,311	131,165	-	131,165
Net realized investment gains (losses) -					
Endowment	-	(1,520,244)	(1,520,244)	(100,812)	(1,621,056)
Allocation of previous endowment gain to operating	2,362,186	(2,362,186)	-	-	-
Other investments	(2,425)	(64,266)	(66,691)	(12,699)	(79,380)
Net unrealized investment gains -					
Endowment	-	10,938,395	10,938,395	2,086,050	13,024,445
Other investments	-	138,116	138,116	-	138,116
Net assets released from restrictions	-	11,349,648	11,349,648	(11,349,648)	-
TOTAL PUBLIC SUPPORT AND REVENUES	\$ 25,186,515	\$ 23,803,808	\$ 48,990,323	\$ (2,569,856)	\$ 47,178,421

(Continued on following page)

The accompanying notes are an integral part of this statement.

MISSOURI BOTANICAL GARDEN
CONSOLIDATED STATEMENT OF ACTIVITIES

(Continued from previous page)

For The Year Ended December 31, 2003

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total Activities
	General Operating	Designated	Total			
EXPENSES:						
Operating services-						
Horticulture	\$ 2,235,328	\$ 380,085	\$ 2,615,413	\$ -	\$ -	\$ 2,615,413
Research and library	3,266,719	4,098,346	7,635,065	-	-	7,635,065
Education	542,643	1,174,213	1,716,856	-	-	1,716,856
Shaw Nature Reserve	613,682	265,463	879,145	-	-	879,145
Education Shaw Nature Reserve	195,560	-	195,560	-	-	195,560
Gateway Center for Resource Efficiency	60,403	266,474	326,877	-	-	326,877
Garden Gate Shop	1,476,299	-	1,476,299	-	-	1,476,299
Center for Conservation and Sustainable Development	89,337	163,461	252,798	-	-	252,798
Professional services	-	841,351	841,351	-	-	841,351
Tower Grove House	16,474	2,427	18,901	-	-	18,901
Neighborhood improvements	-	1,219,337	1,219,337	-	-	1,219,337
Butterfly House	1,278,574	-	1,278,574	-	-	1,278,574
Visitor services	238,223	-	238,223	-	-	238,223
Minimum pension liability expense	(61,521)	-	(61,521)	-	-	(61,521)
TOTAL OPERATING SERVICES	9,951,721	8,681,157	18,632,878	-	-	18,632,878
Supporting Services-						
Administrative	5,048,136	2,878,064	7,926,200	-	-	7,926,200
Maintenance and improvements	2,173,607	1,078,558	3,252,165	-	-	3,252,165
Depreciation	-	2,845,310	2,845,310	-	-	2,845,310
Utilities	681,434	-	681,434	-	-	681,434
Security	618,143	-	618,143	-	-	618,143
Membership department	898,087	-	898,087	-	-	898,087
Development	880,311	513,325	1,393,636	-	-	1,393,636
Minimum pension liability expense	(38,522)	-	(38,522)	-	-	(38,522)
TOTAL SUPPORTING SERVICES	10,261,196	7,315,257	17,576,453	-	-	17,576,453
TOTAL EXPENSES	20,212,917	15,996,414	36,209,331	-	-	36,209,331
CHANGE IN NET ASSETS BEFORE TRANSFERS	4,973,598	7,807,394	12,780,992	(2,569,856)	757,954	10,969,090
PROPERTY TRANSFERS	(136,700)	136,700	-	-	-	-
TRANSFERS OF FUNDS	(2,437,393)	2,437,393	-	-	-	-
CHANGE IN NET ASSETS	2,399,505	10,381,487	12,780,992	(2,569,856)	757,954	10,969,090
NET ASSETS - BEGINNING OF YEAR	(928,104)	80,402,800	79,474,696	41,740,713	31,643,153	152,858,562
NET ASSETS - END OF YEAR	<u>\$ 1,471,401</u>	<u>\$ 90,784,287</u>	<u>\$ 92,255,688</u>	<u>\$ 39,170,857</u>	<u>\$ 32,401,107</u>	<u>\$ 163,827,652</u>

The accompanying notes are an integral part of this statement.

MISSOURI BOTANICAL GARDEN

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATIONS:		
Change in net assets	\$ 5,587,558	\$ 10,969,090
Adjustments to reconcile change in net assets to cash-		
Depreciation	3,171,905	2,845,310
Loss (gain) on property retirements, net	(23,525)	3,647
Net realized losses on investments	518,664	1,714,882
Net unrealized gains on investments	(9,244,101)	(13,720,867)
Change in assets and liabilities-		
Receivables	(3,013,352)	1,308,043
Inventories, prepayments and other assets	203,491	(136,684)
Accounts payable and accrued liabilities	(242,980)	(828,694)
Refundable advances	1,559,641	5,872
Liability for gift annuity payments	115,900	1,968,125
Other liabilities	(116,940)	(1,735)
Contributions and investment income restricted for long-term purposes	(12,064,762)	(8,816,206)
NET CASH FROM OPERATIONS	<u>(13,548,501)</u>	<u>(4,689,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	19,568,188	18,218,686
Purchases of investments	(17,008,231)	(6,547,037)
Purchases of property	(4,168,669)	(9,596,571)
Proceeds from sales of property	23,525	149,953
NET CASH FROM INVESTING ACTIVITIES	<u>(1,585,187)</u>	<u>2,225,031</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings on notes payable	-	176,270
Contributions and investment income restricted for long-term purposes	12,064,762	8,816,206
NET CASH FROM FINANCING ACTIVITIES	<u>12,064,762</u>	<u>8,992,476</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,068,926)	6,528,290
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,334,270</u>	<u>3,805,980</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,265,344</u>	<u>\$10,334,270</u>

The accompanying notes are an integral part of these statements.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Garden operations – The Missouri Botanical Garden (Garden) is a not-for-profit charitable trust whose three primary functions are research, education and horticultural display. Its mission is to discover and share knowledge about plants and their environment in order to preserve and enrich life. The Garden is funded through public contributions, local and federal grants, investment income, membership and admission fees, retail shop revenue and revenue from the Botanical Garden Subdistrict.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Garden and its wholly-owned subsidiary, MBG Properties, Inc. All significant inter-organization transactions and balances have been eliminated in consolidation.

Basis of presentation – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Garden is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits held in banks and overnight repurchase agreements with original maturities of three months or less. Short-term commercial paper, liquid securities and money market funds are included in investments.

Pledges receivable – Legally enforceable pledges are recorded as receivables in the year made. Pledges for support of current operations are recorded as unrestricted-general operating support. Pledges made and received beyond one year are discounted to the present value of estimated future cash flows using a discount rate equal to the 30-year Treasury Bond rate at the pledge date (ranging from 4.83% to 5.12% at December 31, 2004 and from 5.12% to 5.48% at December 31, 2003). For pledges made and received within one year, the net realizable value is a reasonable estimate of the fair value. Amortization of the discounts is included in contribution revenue. Conditional pledges receivable are not included as support until the conditions are substantially met. Management considered all of the amounts at December 31, 2004 and 2003 to be collectible.

Grants receivable – Grants receivable consists of amounts due to the Garden related to the work performed under grant agreements. Management writes off receivables when it determines that an amount will not be collected and considers all receivables at December 31, 2004 and 2003 to be collectible. Accordingly, no allowance for uncollectible amounts has been reflected in the consolidated financial statements.

Inventory – Inventory is stated at the lower of cost or market and consists of items held for sale at the retail centers of the Garden and its subsidiary. Cost is determined using the average cost method.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Investments – Investments are carried at market value, and net realized and unrealized gains (losses) are reflected in the consolidated statements of activities. Contributed securities are stated at their fair market value on the date of receipt. It is the policy of the Garden to sell all contributed securities as soon as they are received.

Property and equipment – Property and equipment are recorded at cost, if purchased, or at estimated fair market value on the date of receipt, if donated. Expenditures greater than \$5,000 for vehicles and \$15,000 for non-vehicles are reviewed for capitalization. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized. Construction in progress includes expenditures made toward the planning and construction of research and education facilities. Generally, plant materials are expensed as purchased and are not capitalized.

Depreciation and amortization is provided on a straight-line basis over the following useful lives:

	<u>Useful Lives</u>
Building, gardens and other structures	10-45 years
Furniture, office and data processing equipment	6-15 years
Other	3-15 years

Refundable advances – Refundable advances represent cash received from grants prior to performance by the Garden.

Gift annuities – The Garden has certain arrangements with donors in which the donor contributes assets in exchange for a promise of fixed payment for a specified period of time to a designated party. At the time of the donation, the assets received are held by the Garden as part of its general assets; a liability is recorded and measured at the present value of the expected future payments to be made to other beneficiaries; any difference is recognized as contribution revenue.

Unrestricted-designated net assets – Unrestricted-designated net assets include net assets restricted by the Board of Trustees for specified purposes, net assets that have accomplished donor restrictions in the same period that the contribution was made, and net assets used for capital projects.

Public support and revenues – 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, temporarily restricted net assets are reclassified to unrestricted-designated net assets and reported in the consolidated statements of activities as net assets temporarily restricted for expenditures.

The Garden reports gifts of land, buildings and equipment as unrestricted support 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

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Garden reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Admissions – Admissions revenue consists of ticket sales and is recognized when the tickets are sold.

Donated services – A number of volunteers contribute services to the Garden in a variety of ways such as gardening and various clerical services that did not meet the requirements of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, and are not reflected in the accompanying consolidated financial statements.

Advertising expenses – Advertising costs are expensed as incurred.

Income taxes – The Garden qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and therefore, there is no provision for income taxes. In addition, the Garden qualifies for the charitable contribution deduction under Section 170 of the Code and has been deemed not to be a private foundation. Income determined to be unrelated business income would be taxable.

Use of estimates – The presentation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification – Certain items in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

Revised accounting standard – The Garden adopted revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, during 2004. This adoption affected the footnote disclosures with respect to the Garden's defined benefit plan and had no impact on its consolidated statements of financial position or activities.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Pledges receivable

Pledges receivable are due as follows:

	December 31,	
	<u>2004</u>	<u>2003</u>
Less than one year	\$ 3,917,966	\$ 3,280,189
One to five years	4,493,153	6,282,074
More than five years	3,711,273	2,676,397
Pledge discounts	(1,284,081)	(1,464,635)
	<u>\$ 10,838,311</u>	<u>\$ 10,774,025</u>

(3) Investments

Investment income on the consolidated statements of activities is shown net of investment, advisory and management fees of \$400,199 and \$358,979 for the years ended December 31, 2004 and 2003, respectively. Included in these fees are amounts paid to the asset custodian of the investments. The asset custodian is a financial institution for which a Trustee is a director. The amounts paid to the asset custodian during 2004 and 2003 are \$93,961 and \$101,718, respectively.

Investments are recorded at fair value in the accompanying consolidated statements of financial position in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. The fair values of investments with readily determinable fair values are based on quoted market prices.

Investments consist of the following at:

	December 31,	
	<u>2004</u>	<u>2003</u>
Equities	\$ 37,769,205	\$ 23,128,208
Bonds	22,066,273	20,382,933
Equity Mutual Funds	19,367,577	25,055,545
Commercial Paper	2,762,068	7,232,957
	<u>\$ 81,965,123</u>	<u>\$ 75,799,643</u>

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Property and equipment

Property and equipment, consists of the following at:

	December 31,	
	2004	2003
Land	\$ 4,375,040	\$ 6,056,820
Buildings, gardens and other structures	96,812,077	85,155,478
Furniture, office and data processing equipment	7,651,751	7,370,788
Construction in progress	6,594,224	12,850,348
Other	4,278,380	4,219,103
Less – accumulated depreciation	(42,168,919)	(39,106,748)
	\$ 77,542,553	\$ 76,545,789

Depreciation expense for the years ended December 31, 2004 and 2003 was \$3,171,905 and \$2,845,310, respectively.

(5) Lines of credit

The Garden maintains unsecured lines of credit for \$3,000,000 and \$2,000,000, which expire on April 29, 2005. The lines of credit bear interest of 1.2% and 1.15%, respectively, in excess of the effective rate for federal funds transactions. The effective rates are based on the daily federal funds rate for the immediately preceding business day, as quoted by the Federal Reserve Bank of New York and are payable upon maturity. The federal funds rate at December 31, 2004 and 2003 was 2.25% and 1.00%, respectively. As of December 31, 2004 and 2003, no balances were outstanding under the lines of credit.

(6) Operating leases

The Garden leases copiers and an automobile under noncancelable operating lease agreements having an initial term of greater than one year. The expected minimum lease payments are as follows:

Year ending December 31:	
2005	\$ 92,602
2006	82,699
2007	51,664
2008	40,404
2009	10,939
	\$ 278,309

Rental expense was \$92,153 and \$98,871 for the years ended December 31, 2004 and 2003, respectively.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Restricted net assets

Temporarily restricted net assets are available for the following purposes at:

	December 31,	
	2004	2003
Property and equipment	\$ 30,080,949	\$ 28,240,138
Research and education	11,906,690	10,088,056
Gift annuity payments	1,009,560	842,663
	\$ 42,997,199	\$ 39,170,857

Permanently restricted net assets are to provide a permanent endowment with investment income available for the operating expenses of the Garden.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets were released for the following purposes during the years ended:

	December 31,	
	2004	2003
Research and education projects	\$ 636,590	\$ 700,052
Capital projects	6,044,842	9,430,065
Neighborhood improvements	1,722,845	1,219,337
Other	-	194
	\$ 8,404,277	\$ 11,349,648

(8) Retirement plan

The Garden has a defined benefit pension plan covering substantially all of its employees (the Plan). The benefits are based on years of service and an employee's compensation during the last five years of employment. The Garden's funding policy is to contribute annually an amount equal to a level percentage of the covered employees' salaries. The Garden uses a December 31 measurement date for the Plan. The following tables provide further information about the Plan:

Effective January 1, 2005 the Plan became frozen. The freeze was recognized as a curtailment, decreasing the projected benefit obligation by \$193,770 from \$5,761,017 to \$5,567,247.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Retirement plan (continued)

Obligations and Funded Status

	Pension Benefits	
	2004	2003
Fair value plan assets at December 31	\$ 4,150,289	\$ 3,646,259
Benefit obligation at December 31	5,567,247	5,371,936
Funded status	(1,416,958)	(1,725,677)
Accrued benefit cost recognized in the cons. Statements of Financial Position	(652,070)	(832,549)
Benefit cost	41,351	(100,043)
Employer contributions	359,284	491,303
Plan participants' contributions	-	-
Benefits paid	97,336	76,978

The accumulated benefit obligation for the Plan was \$5,567,247 and \$5,202,345 at December 31, 2004 and 2003, respectively.

Assumptions

	Pension Benefits	
	2004	2003
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	6.25%	6.25%
Rate of compensation increase	5.00%	5.00%

	Pension Benefits	
	2004	2003
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	6.25%	6.75%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Retirement plan (continued)

The Garden's expected rate of return on Plan assets is determined by the Plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class, as follows:

<u>Asset Class</u>	<u>Expected Long-Term Return on Class</u>	<u>X</u>	<u>Allocation</u>	<u>=</u>	<u>Contribution to Assumption</u>
Equity	8- 10%		60%		4.8%-6%
Fixed Income	5- 7%		40%		2%-2.8%
					<u>6.8%-8.8%</u>

The 8% assumption falls within the expected range.

Plan Assets

The Garden's pension plan weighted-average asset allocations at December 31, 2004 and 2003, by asset category are as follows:

	<u>Plan Assets and December 31,</u>	
	<u>2004</u>	<u>2003</u>
Equity securities	59%	94%
Fixed income	31%	5%
Cash equivalents	10%	1%
Total	<u>100%</u>	<u>100%</u>

The Garden's overall objective for Plan assets is to provide benefits to its beneficiaries through a carefully planned and executed investment program. The assets of the Plan shall be diversified to minimize the risk of large losses within any one asset class, investment type, geographic location, industry or sector distributions, or maturity date, which could seriously impair the Plan's ability to achieve its funding and long-term investment objectives. The assets of the Plan shall be invested to maximize returns for the level of risk taken and maintain adequate liquidity to meet required benefit payments to the Plan's beneficiaries. Based on the determination of the appropriate risk posture for the Plan and its long-term expectations, the following target allocation ranges were established for each major asset category:

- Domestic equity securities – 45%-55%
- International equity securities – 5%-15%
- Debt securities – 35%-45%

The Garden attempts to mitigate investment risk by rebalancing the portfolio back to target allocations as the Garden's contributions and monthly benefit payments are made. If an event causes the portfolio weightings to change significantly, the portfolios are rebalanced immediately following the change.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Retirement plan (continued)

Cash Flows

Contributions

The Garden expects to contribute \$0 to the Plan in 2005, because the 2004 minimum required contribution and the estimated 2005 required quarterly contributions are both \$0.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>
2005	\$ 154,247
2006	154,770
2007	162,339
2008	222,809
2009	261,047
Years 2010-2014	<u>1,798,049</u>
Total	<u>\$ 2,753,261</u>

(9) Concentrations of credit risk

Financial instruments that potentially subject the Garden to concentrations of credit risk consist principally of cash deposits in banks and other financial institutions, investment securities, and pledge receivables. The Garden maintains cash and cash equivalents and short and long-term investments with major banks and financial institutions. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Corporation (SIPC) up to \$100,000 at each institution, as applicable. At times, the Garden may have cash balances with banks in excess of the FDIC coverage. Concentrations of credit risk with respect to pledge receivables are limited due to the large number of donors comprising the Garden's donor base.

(10) Related party transactions

During the years ended December 31, 2004 and 2003, the Garden received \$1,087,054 and \$2,276,232, respectively, in contributions for operating, research, and capital purposes from various members of the Board of Trustees (Trustees). In addition, during 2004 and 2003, \$409,528 and \$1,320,860, respectively, were received from immediate family members of the Trustees, or from companies in which Trustees serve as a director or officer. At December 31, 2004 and 2003, pledges receivable of \$3,201,661 and \$3,250,964, respectively, were due from Trustees, immediate family members of the Trustees and companies in which Trustees serve as a director or officer, and consisted of multiple year pledges to the Garden for operating, research, and capital funds.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Botanical Garden Subdistrict

The Botanical Garden Subdistrict (Subdistrict) is a part of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County. The Subdistrict was established to receive tax revenues from the tax collectors' offices and to pay for botanical services provided to benefit the public. Pursuant to legal requirements, the Subdistrict and the Garden enter into an annually renewable contract for botanical services. The contract provides for botanical facilities and services to be provided to the public by the Garden in exchange for compensation from the Subdistrict. In accordance with the contract, the Garden records revenue based on services provided. Amounts available to the Subdistrict are based on a maximum rate of 3.94¢ and 3.2¢ on each \$100 of assessed valuation at December 31, 2004 and 2003, respectively.

At December 31, 2004, included in Other Liabilities of the Garden, is a note payable to the Subdistrict for \$139,632 at a rate of 4.1% to finance the costs of the design, acquisition, installation, and implementation of energy conservation measures. The note matures in August of 2007, as follows: \$50,527 in 2005, \$52,642 in 2006, and \$36,463 in 2007.

(12) Related entities

In accordance with Statement of Position 94-3, *Reporting of Related Entities By Not-For-Profit Organization*, the accounts of the Garden District Commission, Center for Plant Conservation, Inc. and Gateway Greening, Inc. have not been included in the accompanying consolidated financial statements as the criteria of control does not exist. As required, the following information regarding transactions between the Garden and these entities is provided:

Garden District Commission – The Garden District Commission (GDC) is a not-for-profit corporation established to help stabilize and strengthen the Shaw, McRee Town, Tiffany, and Southwest Garden neighborhoods. It is also intended to provide services to organizations and institutions within these neighborhoods as part of a planned approach to neighborhood stabilization and improvement. During the years ended December 31, 2004, and 2003, the Garden provided operational funding of \$1,722,845 and \$1,219,531, respectively. As of December 31, 2004 and 2003, the Garden has a grant receivable of \$1,299,603 and \$0, respectively.

Center for Plant Conservation, Inc. – The Center for Plant Conservation, Inc. (CPC) is a not-for-profit corporation established for the purpose of promoting the conservation and preservation of endangered species in the United States. As of December 31, 2004 and 2003, the Garden has a grant receivable of \$480,765 and \$305,767, respectively, relating to salaries and other operational support funded by the Garden on a reimbursement basis.

Gateway Greening, Inc. – Gateway Greening, Inc. (GG) is a not-for-profit organization dedicated to community development through community gardening. GG's mission is to provide resources and training to neighborhood groups who believe in their communities and want to reclaim them from urban decay. As of December 31, 2004 and 2003, the Garden has a grant receivable (payable) of \$91,929 and \$(94,285), respectively, relating to salaries and other operational support funded by the Garden on a reimbursement basis.

MISSOURI BOTANICAL GARDEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Functional classification of expenses

The Garden provides research, education, and horticultural display to the public. The functional classification of the expenses related to fulfilling these functions consist of for the years ended:

	December 31,	
	<u>2004</u>	<u>2003</u>
Program services:		
Horticulture	\$ 3,438,288	\$ 3,346,130
Research	12,082,713	10,091,644
Education	6,092,877	5,649,670
Other programs	6,371,511	4,751,253
Support services:		
Management and general support	7,636,438	9,610,433
Fundraising	1,592,785	2,760,201
	<u>\$ 37,214,612</u>	<u>\$ 36,209,331</u>