

THE LIVING DESERT
Financial Statements
Year ended June 30, 2018
(With Independent Auditors' Report Thereon)

THE LIVING DESERT
Financial Statements
Year ended June 30, 2018

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Board of Trustees
The Living Desert
Palm Desert, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of The Living Desert (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statement of activities, functional expenses and cash flows for the year then ended, and 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Living Desert as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Living Desert's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "David Fan" followed by a stylized flourish.

October 12, 2018
Irvine, California

THE LIVING DESERT
Statement of Financial Position
Year ended June 30, 2018
(with comparative totals as of June 30, 2017)

	2018	2017
<u>Assets</u>		
Cash and cash equivalents (note 2c)	\$ 6,202,098	10,529,476
Investments (note 3)	44,644,556	37,398,739
Pledges receivable, net (note 4)	7,380,266	5,176,165
Other receivables	192,913	133,863
Prepaid expenses	132,077	263,820
Beneficial interest in trusts and insurance assignments (note 6)	196,236	1,368,957
Land, buildings and equipment, net (note 7)	23,218,580	18,400,839
Total assets	\$ 81,966,726	73,271,859
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 389,602	380,451
Accrued expenses	763,545	655,388
Unearned revenue and deposits (note 2k)	1,038,430	976,794
Notes payable (note 8)	3,000,000	3,000,000
Total liabilities	5,191,577	5,012,633
Net assets (note 11):		
Unrestricted:		
Undesignated	22,446,467	19,651,313
Board designated	7,540,193	5,953,771
Total unrestricted net assets	29,986,660	25,605,084
Temporarily restricted (note 10)	10,899,968	6,880,603
Permanently restricted	35,888,521	35,773,539
Total net assets	76,775,149	68,259,226
Total liabilities and net assets	\$ 81,966,726	73,271,859

See accompanying notes to financial statements

THE LIVING DESERT
Statement of Activities
Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily	Permanently	Totals	
		Restricted	Restricted	2018	2017
Support and Revenue:					
Program Revenues:					
Park admissions	\$ 4,815,494	-	-	4,815,494	4,101,200
Memberships	1,461,109	-	-	1,461,109	1,433,044
Retail concessions (note 9)	394,761	-	-	394,761	320,788
Park services and rentals	1,113,877	-	-	1,113,877	1,055,628
Education programs	91,982	-	-	91,982	150,501
Total program revenues	7,877,223	-	-	7,877,223	7,061,161
Other Support:					
Contributions	3,212,356	4,080,253	114,982	7,407,591	16,151,927
Special events, net of direct expenses (note 13)	507,617	-	-	507,617	564,647
In-kind revenue	161,511	-	-	161,511	274,518
Lease income (note 9)	298,711	-	-	298,711	297,586
Investment income, net (note 3)	4,678,787	46,663	-	4,725,450	4,057,895
Gain on sale of assets	-	-	-	-	570,900
Other revenue	11,638	-	-	11,638	2,017
Net assets released from restrictions (note 10)	107,551	(107,551)	-	-	-
Total other support	8,978,171	4,019,365	114,982	13,112,518	21,919,490
Total support and revenues	16,855,394	4,019,365	114,982	20,989,741	28,980,651
Expenses:					
Program Services:					
Zoological	3,553,333	-	-	3,553,333	3,526,277
Botanical	554,942	-	-	554,942	554,594
Education	1,565,391	-	-	1,565,391	1,600,918
Conservation	1,609,471	-	-	1,609,471	1,534,766
Memberships and park services	2,635,323	-	-	2,635,323	2,567,538
Marketing, advertising and public relations	926,377	-	-	926,377	745,268
Total program services expenses	10,844,837	-	-	10,844,837	10,529,361
Supporting Services					
Management and general	473,693	-	-	473,693	553,436
Fundraising	1,155,288	-	-	1,155,288	1,082,886
Total supporting services expenses	1,628,981	-	-	1,628,981	1,636,322
Total expenses	12,473,818	-	-	12,473,818	12,165,683
Increase (decrease) in net assets	4,381,576	4,019,365	114,982	8,515,923	16,814,968
Net assets at beginning of year	25,605,084	6,880,603	35,773,539	68,259,226	51,444,258
Net assets at end of year	\$ 29,986,660	10,899,968	35,888,521	76,775,149	68,259,226

See accompanying notes to financial statements

THE LIVING DESERT
Statement of Functional Expenses
Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	Program Services				Membership/ Park Services
	Zoological	Botanical	Education	Conservation	
Salaries and wages	\$ 1,537,573	302,486	608,520	563,656	1,108,711
Employee benefits	185,225	34,322	52,986	56,302	118,351
Payroll taxes	115,951	22,430	45,741	42,252	81,908
Subtotal	<u>1,838,749</u>	<u>359,238</u>	<u>707,247</u>	<u>662,210</u>	<u>1,308,970</u>
Repairs and maintenance	75,789	34,720	64,695	40,502	75,663
Professional fees and contracts	201,190	24,605	92,341	67,625	117,316
Office supplies	9,789	489	3,636	3,896	14,841
Equipment	19,857	1,689	13,261	6,654	9,563
Training and travel	74,114	10,534	52,536	41,560	73,453
Administrative expenses	60,248	12,047	60,563	59,345	279,932
Printing and postage	935	335	5,623	6,279	46,009
Park supplies	233,873	5,350	43,351	53,636	129,546
Future park planning	-	-	-	-	-
Insurance	23,494	4,699	23,494	13,574	23,494
Advertising	-	-	4,984	4,195	32,773
Interest	-	-	69,968	7,774	-
In-kind expenses	21,416	2,677	26,922	12,677	36,307
Utilities	123,510	24,645	123,605	71,334	123,795
Depreciation	826,456	65,333	227,886	316,615	296,686
Miscellaneous costs	43,913	8,581	45,279	240,563	57,688
Bad debt expense	-	-	-	1,032	9,287
Total expenses	<u>\$ 3,553,333</u>	<u>554,942</u>	<u>1,565,391</u>	<u>1,609,471</u>	<u>2,635,323</u>

See accompanying notes to financial statements

Program Services		Supporting Services			Totals	
Advertising/ Public Relations	Subtotal	Management and General	Fundraising	Subtotal	2018	2017
197,845	4,318,791	270,203	597,427	867,630	5,186,421	4,975,460
19,413	466,599	16,490	39,423	55,913	522,512	433,144
14,505	322,787	13,516	42,060	55,576	378,363	369,981
<u>231,763</u>	<u>5,108,177</u>	<u>300,209</u>	<u>678,910</u>	<u>979,119</u>	<u>6,087,296</u>	<u>5,778,585</u>
12,628	303,997	12,628	12,628	25,256	329,253	396,388
203,909	706,986	23,043	58,456	81,499	788,485	691,757
3,323	35,974	1,491	10,141	11,632	47,606	51,964
2,192	53,216	2,115	2,192	4,307	57,523	45,916
13,703	265,900	23,691	29,575	53,266	319,166	234,447
13,399	485,534	13,906	24,283	38,189	523,723	457,445
3,703	62,884	958	95,577	96,535	159,419	175,295
1,295	467,051	1,293	1,296	2,589	469,640	428,711
-	-	-	-	-	-	357,418
5,221	93,976	5,221	5,221	10,442	104,418	93,400
273,999	315,951	-	26,394	26,394	342,345	316,041
-	77,742	-	-	-	77,742	64,617
43,667	143,666	5,949	11,898	17,847	161,513	111,741
27,700	494,589	27,561	27,700	55,261	549,850	518,225
48,138	1,781,114	48,138	96,276	144,414	1,925,528	1,933,085
41,737	437,761	7,490	20,760	28,250	466,011	475,777
-	10,319	-	53,981	53,981	64,300	34,871
<u>926,377</u>	<u>10,844,837</u>	<u>473,693</u>	<u>1,155,288</u>	<u>1,628,981</u>	<u>12,473,818</u>	<u>12,165,683</u>

See accompanying notes to financial statements

THE LIVING DESERT
Statement of Cash Flows
Year ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 8,515,923	16,814,968
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,925,528	1,933,085
Unrealized and realized (gain) loss on investments	(3,434,026)	(3,664,773)
(Increase) decrease in pledges receivable	(2,204,101)	270,239
(Increase) decrease in other receivable	(59,050)	(38,154)
(Increase) decrease in prepaid expenses	131,743	(60,306)
(Increase) decrease in beneficial interest in trusts	1,172,721	(825,890)
Increase (decrease) in accounts payable	9,151	22,029
Increase (decrease) in accrued expenses	108,157	112,629
Increase (decrease) in unearned revenue	61,636	9,547
Net cash provided by operating activities	6,227,682	14,573,374
Cash flows from investing activities:		
Purchase of fixed assets	(6,743,269)	(287,364)
Purchase of investments	(17,226,313)	(12,572,214)
Investment income	(1,455,035)	-
Proceeds from sale of investments	14,869,557	1,587,373
Net cash flows provided (used) by investing activities	(10,555,060)	(11,272,205)
Net increase (decrease) in cash and cash equivalents	(4,327,378)	3,301,169
Cash and cash equivalents at beginning of year	10,529,476	7,228,307
Cash and cash equivalents at end of year	\$ 6,202,098	10,529,476
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for:		
Interest	\$ 77,742	64,617

There were no significant noncash investing and financing activities for the years ended June 30, 2018 or 2017.

See accompanying notes to financial statements

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(1) Nature of Organization

The Living Desert was incorporated in the State of California in April 1978 as a nonprofit corporation and is located in Palm Desert, California. The specific and primary purpose was to establish a corporation in order to receive and acquire assets, consisting of real and personal property, and subsequent to receipt, to operate, control and use said assets for the following purposes:

- To save, protect and conserve areas of open desert.
- To promote experience, interpretation and understanding of the ecology of the desert.
- To engage in the conservation activities through preservation breeding of threatened or endangered species of desert animals and plants.
- To conduct conservation research in the care and husbandry of desert animals that will aid in the conservation of natural desert ecosystems.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of The Living Desert have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Financial Statement Presentation

The Living Desert has implemented the financial statement presentation recommended by the Financial Accounting Standards Boards (FASB) in its Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, The Living Desert 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.

(c) Cash and Cash Equivalents

The Living Desert considers cash, demand deposits and money market funds to be cash and cash equivalents. The following items on the Statement of Financial Position were considered cash and cash equivalents for purposes of the Statement of Cash Flows as of June 30, 2018:

Petty cash	\$ 8,948
Demand deposits	<u>6,193,150</u>
Total	<u>\$ 6,202,098</u>

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(c) Cash and Cash Equivalents. (continued)

These accounts may, at times, exceed federally insured limits. The Living Desert has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. As of June 30, 2018, cash held in excess of FDIC was \$5,549,590.

(d) Investments

The Living Desert's investments are carried at fair value using quoted market prices with gains and losses included in the Statement of Activities. Investments include certificates of deposit, equities, U.S. government bonds and corporate bonds. The funds are subject to gains or losses of principal based on fluctuations in market prices. Investment income from permanently restricted investments is reported as unrestricted income.

(e) Fair Value Measurements

Accounting Standards Codification ("ASC") 820, Fair Value Measurements ("ASC 820"), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Organization accounts for its investments under ASC 820. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Organization's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(e) Fair Value Measurements. (continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Organization's financial statements.

(f) Pledges Receivable

Pledges are recorded as receivables and recognized as revenue in the year the pledge is made. Pledges greater than one year are discounted using an average of an unsecured borrowing rate for individuals with excellent credit and the 3 year U.S. Treasury Note yield as of the end of the fiscal year. The discount rate as of June 30, 2018 was 4.28%.

(g) Property and Equipment

Property and equipment are recorded at cost, or in the case of donated items, at estimated fair market value at the date of the gift. Maintenance and repairs are expensed when incurred and betterments are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives of five to thirty years. It is the policy of The Living Desert to capitalize all assets \$10,000 and greater.

(h) Donations and Contributions

Unconditional promises to give and contributions received are recognized as revenues or gains in the period received. Unconditional promises that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give due in future years are recorded at fair value on the date of promise.

Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support. Temporarily restricted net assets are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction or when a time restriction has been met.

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(i) Contributed Services and Goods

Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are purchased by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements.

(j) Collections

Collections of animals, plants and works of art are not capitalized by The Living Desert.

(k) Membership Dues

Membership dues are reported as income when earned. Amounts received or billed in advance, but not earned, are reported as unearned revenue. As of June 30, 2018 unearned membership dues was \$874,655.

(l) Income Taxes

The Living Desert is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code, respectively.

The Living Desert's federal Return of Organization Exempt from Income Tax (Form 990) and Return of Organization Exempt from Business Income Tax (Form 990-T) for the last three fiscal years are subject to IRS examination. As of the date of this report, the Living Desert's return covering the fiscal year ended June 30, 2018 has not yet been filed. The Organization's Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the IRS, generally for four years after they are filed.

(m) Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(n) Advertising Costs

Advertising costs are expensed as incurred by The Living Desert. Total advertising costs for the year ended June 30, 2018 were \$342,345.

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(o) Net Assets

To ensure observance of limitations and restrictions placed on the use of financial resources available to The Living Desert, the accounts of The Living Desert are maintained in accordance with the principles of net asset accounting. This is the procedure by which financial resources for various purposes are classified for accounting and reporting purposes into net asset classification established according to their nature and purpose. Separate accounts are maintained for each net asset classification; however, in the accompanying financial statements, net asset classifications that have similar characteristics have been combined into net asset groups as noted below.

Net assets and revenue, gains, expenses, and losses are classified as unrestricted, temporarily restricted, or permanently restricted, as follows:

- Unrestricted net assets represent the portion of expendable funds available for support of the operations of The Living Desert.
- Temporarily restricted net assets consist of contributions that are subject to specific donor imposed stipulations that can be fulfilled by actions of The Living Desert pursuant to those stipulations or that expire by the passage of time. The Living Desert's temporarily restricted net assets consist primarily of contributions that are restricted for construction or acquisition of exhibit enclosures or other property and equipment, and beneficial interests in trusts and insurance assignments where the restrictions expire upon termination of the trust or insurance assignment. Temporarily restricted contributions received and spent in the same year have been recorded as unrestricted support.
- Permanently restricted net assets consist of contributions, such as permanent endowment funds, subject to donor imposed stipulations that the principal be maintained permanently by The Living Desert. Generally, the donors permit The Living Desert to use all or part of the income earned on these assets.

THE LIVING DESERT

Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(p) Endowments

The Living Desert's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. The Board of Trustees of The Living Desert has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Living Desert 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 funds 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 Living Desert in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, The Living Desert considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of The Living Desert, and (7) The Living Desert's investment policies.

(q) Investment Return Objectives, Risk Parameters and Strategies

The Living Desert has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of approximately 5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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Notes to the Financial Statements

Year ended June 30, 2018

(2) Summary of Significant Accounting Policies. (continued)

(r) Spending Policy

The Living Desert has a policy of distributing up to 5% of the past three years average value of the endowment balance over the following fiscal year. The Living Desert considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor- restrictions, and the possible effects of inflation.

(s) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Use of Estimates (continued)

However, management anticipates any variances to be immaterial.

(t) Prior Data

Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with The Living Desert's prior year financial statements, from which this selected financial data was derived.

(u) Subsequent Events

Subsequent events have been evaluated by management through October 12, 2018, which is the date the financial statements were available to be issued.

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Notes to the Financial Statements

Year ended June 30, 2018

(3) Investments

The following table presents investments recorded at fair value as of June 30, 2018 and indicates the fair value hierarchy of the valuation techniques used to measure fair value as described in note 2(e).

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 29,341,013	29,341,013	-	-
Mutual funds	8,534,233	8,534,233	-	-
Government and agency securitites	1,970,593	-	1,970,593	-
Corporate bonds	4,743,142	-	4,743,142	-
Interest in real estate and partnerships	<u>55,575</u>	<u>-</u>	<u>-</u>	<u>55,575</u>
Total investments	<u>\$ 44,644,556</u>	<u>37,875,246</u>	<u>6,713,735</u>	<u>55,575</u>

The Living Desert received a donation of a 1% partnership interest in a LLC in June 1995. The fair value of the investment is determined based on tax assessed valuations of the property. Based on the level of unobservable fair value inputs, this investment is categorized as level 3. Change in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows:

<u>Change in Level 3 Investments</u>	<u>Interest in Real Estate and Partnerships</u>
Balance, beginning of year	\$ 59,301
Change in fair value	<u>(3,726)</u>
Balance, end of year	<u>\$ 55,575</u>

Investment income for the year ended June 30, 2018, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Investment income:		
Interest and dividend income	\$1,435,485	19,550
Unrealized gains (losses)	2,158,329	4,658
Realized gains (losses)	1,245,524	25,515
Investment fees	<u>(160,551)</u>	<u>(3,060)</u>
Total investment income	<u>\$ 4,678,787</u>	<u>46,663</u>

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Notes to the Financial Statements
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(4) Pledges Receivable

The amount of unconditional promises receivable at June 30, 2018 was as follows:

Unconditional promises to give	\$ 7,771,049
Less unamortized discount	(320,172)
Allowance for doubtful pledges	<u>(70,611)</u>
Net unconditional promises to give	<u>\$ 7,380,266</u>

Amounts of unconditional promises to give due in:

Less than one year	\$ 4,325,005
One to five years	2,520,164
More than five years	<u>925,880</u>
Total pledges receivable	<u>\$ 7,771,049</u>

Changes in value of donations and pledges receivable for the year ended June 30, 2018 was as follows:

Pledges receivable at beginning of year	\$ 5,176,165
New pledges	3,498,333
Payments received	(888,423)
Write-offs	(15,026)
Change in present value discount	(320,172)
Allowance for uncollectible pledges	<u>(70,611)</u>
Pledges receivable at end of year	<u>\$ 7,380,266</u>

Pledges receivable with due dates extending beyond one year are discounted using a risk adjusted rate of return of 4.28%.

(5) Intentions to Give

The Living Desert has received indications of gifts in the form of irrevocable bequests where the Organization is unable to estimate the amount of the receivable and bequests, which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, the Living Desert has not recognized an asset or contribution revenue for these gifts. As of June 30, 2018 the potential receivable cannot be determined.

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Year ended June 30, 2018

(6) Beneficial Interest in Trusts and Insurance Assignments

At June 30, 2018, beneficial interest in trusts and insurance assignments consisted of the following:

Pooled income fund	<u>\$ 196,236</u>
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The Living Desert established a pooled income fund whereby participating donors deposited \$572,678 of securities to the fund. The donors receive a specified percentage of any income earned on those securities and The Living Desert receives the remaining portion of the income earned. Upon the death of the donors, the principal and all future income shall be distributed to The Living Desert.

The table below presents information about the changes in the beneficial interest trusts, which is measured at fair value on a recurring basis using significant unobservable inputs (level 3):

Beginning balance	\$ 1,368,957
Change in value of beneficial interest	1,715
Payments made	<u>(1,174,436)</u>
	<u>\$ 196,236</u>

(7) Property and Equipment

Property and equipment at June 30, 2018 are summarized as follows:

	<u>Estimated Useful Lives</u>	
Buildings	30 years	\$ 20,692,403
Land improvements	20 years	6,263,533
Exhibit enclosures	20 years	7,201,050
Equipment	5 to 7 years	1,193,481
Amusement rides	10 years	1,007,655
Software	5 years	250,302
Land	N/A	91,373
Construction in Progress	N/A	<u>6,866,130</u>
		43,565,927
Less accumulated depreciation		<u>(20,347,347)</u>
Net property and equipment		<u>\$ 23,218,580</u>

Depreciation and amortization expense was \$1,925,528 for the year ended June 30, 2018.

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Notes to the Financial Statements

Year ended June 30, 2018

(8) Notes Payable

On May 6, 2015, The Living Desert entered into a loan payable agreement with Union Bank with a base interest rate, based on an index selected by the bank which is 1.5% per annum in excess of the LIBOR rate for the interest period selected by the bank. The terms of the loan are 36 monthly interest payments beginning June 1, 2015, and one payment of \$3,000,000 and any accrued but unpaid interest on June 1, 2018. The funds were used to refinance the Zoo's previous loan in which the funds were used for the construction of the Discovery Center. On June 16, 2017, the Living Desert renewed this loan which will now mature on June 30, 2020, with an interest rate of 1% plus LIBOR. The balance of this loan at June 30, 2018 was \$3,000,000. Interest paid during the year ended June 30, 2018 was \$77,742.

At June 30, 2018, The Living Desert has a line of credit with Union Bank secured by the assets of The Living Desert, in the amount of \$1,000,000 that matures June 30, 2019. The interest rate is 2.1% per annum in excess of LIBOR. There was no outstanding balance on this line of credit as of June 30, 2018.

On June 16, 2017, The Living Desert entered into a line of credit with Union Bank secured by the assets of The Living Desert, in the amount of \$5,000,000 that matures June 30, 2020. The interest rate is 1% per annum in excess of LIBOR. There was no outstanding balance on this line of credit as of June 30, 2018.

(9) Operating Leases

On January 1, 1971, The Living Desert entered into a 50 year operating lease agreement with the Coachella Valley Water District that expires in December 2020. On October 11, 2002, the lease was amended to extend the lease for an additional 25 years expiring on December 31, 2045. The lease amount is for \$1 per year. The Living Desert entered into two sublease agreements with a private corporation in November 1992 for portions of this land which expire in December 2045 and January 2082 for \$12,000 and \$6,000, respectively. The monthly rent is adjusted annually based on the Consumer Price Index.

At June 30, 2018, minimum future rental income is as follows:

<u>Fiscal year:</u>	
2019	\$ 297,612
2020	297,612
2021	297,612
2022	297,612
2023	297,612
Thereafter	<u>10,317,216</u>
	<u>\$11,805,276</u>

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Notes to the Financial Statements

Year ended June 30, 2018

(9) Operating Leases. (continued)

On November 1, 2017, The Living Desert entered into a new lease agreement with an outside vendor to provide food and beverage, catering, and retail gift services. Per the terms of the lease agreement, The Living Desert receives 9% of annual food, beverage and vending sales, which adjusts to 14% then 18% when annual sales exceed \$800,000 and \$1,400,000, respectively.

The Living Desert also receives 14% of annual catering and alcohol sales and 30% of retail gift sales. The lease expires October 31, 2024.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

Time restriction - pledges	\$ 3,160,370
Special purpose fund	571,730
Capital fund	<u>7,167,868</u>
Temporarily Restricted Net Assets	<u>\$ 10,899,968</u>

(11) Endowment Composition and Changes in Endowment Net Assets

	<u>Board Designated</u>	<u>Donor Designated</u>	<u>Permanently Restricted</u>	<u>All Funds</u>
Restricted endowment funds	<u>\$ 7,540,193</u>	<u>7,532,764</u>	<u>35,888,521</u>	<u>50,961,478</u>

Changes in endowment net assets as of June 30, 2018 are as follows:

Beginning of year	\$ 5,953,771	4,331,043	35,773,539	46,058,353
Contributions	-	-	114,982	114,982
Investment income	2,004,778	1,393,259	-	3,398,037
Realized and unrealized gains	42,226	3,309,513	-	3,351,739
Investment fees	94,268	(146,404)	-	(52,136)
Amounts appropriated for expenditure	(14,022)	(1,354,647)	-	(1,481,158)
Transfers	<u>(414,317)</u>	<u>-</u>	<u>-</u>	<u>(414,317)</u>
End of year	<u>\$ 7,540,193</u>	<u>7,532,764</u>	<u>35,888,521</u>	<u>50,961,478</u>

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Notes to the Financial Statements

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(12) Lease Commitments

The Living Desert leases certain office equipment and alarm service equipment under operating lease agreements expiring at various dates through the year 2022. Minimum required future rental payments under leases as of June 30, 2018, are:

<u>Fiscal year:</u>	
2019	\$ 11,432
2020	11,432
2021	11,432
2022	5,716
Total minimum future payments	<u>\$ 40,012</u>

Rental expenses for operating lease agreements were \$11,432 for the year ended June 30, 2018.

(13) Special Events

The Living Desert hosts a variety of special events throughout the year. The revenue and expenses related to these special events are:

	<u>Gala</u>	<u>Wildlights</u>	<u>Other Events</u>	<u>Total</u>
Special event revenue	\$ 771,310	511,015	310,402	1,592,727
Less direct expenses	<u>(508,512)</u>	<u>(290,882)</u>	<u>(285,716)</u>	<u>(1,085,110)</u>
Net support from special events	<u>\$ 262,798</u>	<u>220,133</u>	<u>23,946</u>	<u>507,617</u>