

**DESERT BOTANICAL GARDEN, INC.  
AND AFFILIATES**

Consolidated financial statements  
Together with independent auditors' report  
And supplementary information

September 30, 2012



# DESERT BOTANICAL GARDEN, INC. AND AFFILIATES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Desert Botanical Garden, Inc.

We have audited the accompanying consolidated statement of financial position of Desert Botanical Garden, Inc. (an Arizona nonprofit organization) and Affiliates (collectively, the "Garden"), as of September 30, 2012 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Garden's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Garden's 2011 consolidated financial statements, and in our report dated March 29, 2012, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants' Auditing Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Garden's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 Desert Botanical Garden, Inc. and Affiliates as of September 30, 2012 and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 – 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Schmidt Westergard & Company, PLLC*

Mesa, Arizona  
January 21, 2013

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
September 30, 2012  
(with comparative totals as of September 30, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,046,027	\$ 1,485,055
Investments	695,055	61,063
Contributions receivable, net	286,431	395,181
Other receivables	64,216	18,095
Inventories	65,443	220,740
Prepaid expenses and other current assets	148,359	219,848
Total current assets	<u>3,305,531</u>	<u>2,399,982</u>
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	95,338	165,627
PROPERTY AND EQUIPMENT, net	16,614,440	16,951,264
OTHER ASSETS	73,858	73,858
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED		
ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	997,705	2,500
Contributions receivable, net	889,387	123,000
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	35,002	526,840
Investments	8,457,933	8,213,673
Contributions receivable, net	208,964	355,263
Beneficial interest in remainder trust	204,000	201,000
Cash surrender value of life insurance policies	42,085	30,406
	<u>\$ 30,924,243</u>	<u>\$ 29,043,413</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable - Bank line of credit	\$ 700,000	\$ 1,000,000
Current portion of long-term debt	50,000	50,000
Accounts payable and accrued liabilities	1,092,710	795,159
Deferred revenue	1,285,112	1,082,944
Annuity payment liability	5,600	5,600
Total current liabilities	<u>3,133,422</u>	<u>2,933,703</u>
DEFERRED REVENUE, less current portion	66,019	61,126
ANNUITY PAYMENT LIABILITY, less current portion	47,700	50,400
LONG-TERM DEBT, less current portion	150,000	200,000
BONDS PAYABLE	600,000	600,000
TRUSTEE NOTES PAYABLE	650,000	-
Total liabilities	<u>4,647,141</u>	<u>3,845,229</u>
NET ASSETS		
Unrestricted		
Designated by the Board of Trustees:		
Asset replacement	156,858	156,840
Operating reserve	1,000	34,049
Total designated	<u>157,858</u>	<u>190,889</u>
Nondesignated	13,340,154	13,832,874
Total unrestricted net assets	<u>13,498,012</u>	<u>14,023,763</u>
Temporarily restricted	3,831,106	1,847,239
Permanently restricted	8,947,984	9,327,182
Total net assets	<u>\$ 30,924,243</u>	<u>\$ 29,043,413</u>

The accompanying notes are an integral part of this consolidated financial statement.

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2012  
(with comparative totals for the year ended September 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total 2011
<b>SUPPORT AND REVENUE</b>					
Retail sales	\$ 1,777,123	\$ -	\$ -	\$ 1,777,123	\$ 2,056,041
Cost of retail sales	(953,573)	-	-	(953,573)	(998,343)
Gross profit on retail sales	823,550	-	-	823,550	1,057,698
Beverage sales	541,124	-	-	541,124	423,462
Cost of beverage sales	(113,363)	-	-	(113,363)	(97,964)
Gross profit on beverage sales	427,761	-	-	427,761	325,498
Total gross profit on retail and beverage sales	1,251,311	-	-	1,251,311	1,383,196
Contributions	1,296,808	2,215,092	106,123	3,618,023	2,467,457
Admissions	2,711,295	-	-	2,711,295	2,382,063
Memberships	2,039,411	-	-	2,039,411	1,841,158
Governmental contracts	267,259	-	-	267,259	129,759
Educational classes	296,546	-	-	296,546	337,883
Facility rental and concessions	441,025	-	-	441,025	444,539
Investment income	254,932	-	-	254,932	288,891
Net realized and unrealized gain / (loss) on investments	315,270	767,892	-	1,083,162	(779,718)
Change in value of split-interest agreements	(3,200)	-	14,679	11,479	28,341
Loss on disposal of assets	-	-	-	-	(34,949)
Other revenues and gains / (losses)	10,795	-	-	10,795	(5,690)
Total support and revenue before special events and net assets released from restrictions	8,881,452	2,982,984	120,802	11,985,238	8,482,930
Special events revenue	1,874,318	-	-	1,874,318	1,583,098
Less costs of direct donor benefits	(822,686)	-	-	(822,686)	(924,428)
Gross profit on special events	1,051,632	-	-	1,051,632	658,670
Total support and revenue	9,933,084	2,982,984	120,802	13,036,870	9,141,600
NET ASSETS RELEASED FROM RESTRICTIONS	1,499,117	(1,499,117)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	11,432,201	1,483,867	120,802	13,036,870	9,141,600
<b>EXPENSES</b>					
Program	6,418,222	-	-	6,418,222	5,965,885
Retail, marketing, and visitor services	2,675,952	-	-	2,675,952	2,442,588
Administration	1,511,215	-	-	1,511,215	1,562,658
Fundraising and membership	1,352,563	-	-	1,352,563	1,176,580
Total expenses	11,957,952	-	-	11,957,952	11,147,711
CHANGE IN NET ASSETS	(525,751)	1,483,867	120,802	1,078,918	(2,006,111)
NET ASSETS - Beginning of year	14,023,763	1,847,239	9,327,182	25,198,184	27,204,295
Change in donor restriction	-	500,000	(500,000)	-	-
NET ASSETS - End of year	\$ 13,498,012	\$ 3,831,106	\$ 8,947,984	\$ 26,277,102	\$ 25,198,184

The accompanying notes are an integral part of this consolidated financial statement.

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended September 30, 2012  
(with comparative totals for the year ended September 30, 2011)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,078,918	\$ (2,006,111)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,187,998	1,268,295
Amortization of bond issuance costs	-	9,038
Contributions restricted for investment in long-lived assets, improvements and endowment	(1,892,194)	(190,821)
Non-cash contribution of property	-	(39,930)
Non-cash contribution of stock	(55,136)	(28,940)
Change in value of split-interest agreements	(100)	(20,398)
Change in cash surrender value of life insurance policies	(11,679)	(7,943)
Net realized and unrealized (gains) losses on investments	(1,083,162)	779,718
Change in discount on long-term contributions receivable	27,486	(12,000)
Change in valuation allowance for contributions receivable	(99,000)	(36,000)
Loss on disposal of property	-	34,949
(Increase) decrease in		
Other receivables	(46,121)	54,781
Contributions receivable	223,376	(360,895)
Inventories	155,297	(27,644)
Prepaid expenses and other current assets	71,489	(92,815)
Increase (decrease) in		
Accounts payable and accrued liabilities	48,475	(224,791)
Deferred revenue	207,061	83,697
Annuity payment liability	(5,600)	(5,900)
Net cash used in operating activities	<u>(192,892)</u>	<u>(823,710)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in cash and cash equivalents restricted for investment in long-lived assets and improvements	(995,205)	132,271
(Increase) decrease in cash and cash equivalents restricted for endowment	491,838	(222,346)
Purchases of investments restricted to endowment	(244,260)	(285,018)
Proceeds from maturities and sales of investments	2,038,066	3,803,236
Purchases of investments	(1,484,113)	(4,122,750)
Purchases of property and equipment	(602,098)	(749,134)
Net cash used in investing activities	<u>(795,772)</u>	<u>(1,443,741)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in long-lived assets, improvements and endowment	1,249,636	584,910
Borrowings on note payable - Bank line of credit	700,000	1,000,000
Payments on note payable - Bank line of credit	(1,000,000)	-
Borrowings on long-term debt	-	250,000
Repayments on long-term debt	(50,000)	-
Borrowings on trustee notes payable	650,000	-
Net cash provided by financing activities	<u>1,549,636</u>	<u>1,834,910</u>
Net increase (decrease) in cash and cash equivalents	560,972	(432,541)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,485,055</u>	<u>1,917,596</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 2,046,027</u>	<u>\$ 1,485,055</u>

## 1. Operations and Summary of Significant Accounting Policies

### *Operations*

The Desert Botanical Garden, Inc. ("DBG"), an Arizona nonprofit corporation, was formed in 1937 as an educational and scientific institution devoted to the conservation, display, study and dissemination of knowledge regarding desert plants. Located on 145 acres in Papago Park, Phoenix, Arizona, the Garden has more than 75,000 individual plants representing approximately 4,500 taxa (species) from the deserts of the world. Research facilities include a botanical library with over 7,500 books and serial publications on deserts and desert plants, and a herbarium that houses more than 72,000 dried plant specimens collected primarily from Arizona and northern Mexico. Educational programs include classes, field trips, lectures and workshops on desert plants and desert related subjects.

DBG is supported primarily by donations, memberships from individuals and corporations, research grants, admission fees, educational program fees, and retail sales from a garden shop.

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of DBG, Desert Botanical Garden Foundation, and DBG Agave, LLC (collectively, the "Garden"). Intercompany balances and transactions are eliminated in the consolidation.

Desert Botanical Garden Foundation (the "Foundation") is a nonprofit corporation and was incorporated under the laws of the state of Arizona in August 2008. The Foundation was organized for educational and charitable purposes for the benefit of, and to carry out certain purposes of, DBG. The Foundation operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation was inactive for the period from its inception (August 2008) through September 30, 2008. From October 1, 2008 through September 30, 2011, DBG transferred cash, investments, split interest agreements and contributions receivable related to the endowment, totaling approximately \$8,101,000, to the Foundation. During the year ended September 30, 2012, DBG transferred additional contributions receivable related to the endowment, which totaled approximately \$8,000, to the Foundation. In addition, during the year ended September 30, 2012, the Foundation distributed approximately \$510,000 to DBG as a draw on accumulated investment earnings. As discussed in more detail in Note 12, during the year ended September 30, 2012, the Foundation also distributed approximately \$500,000 to DBG when a donor elected to repurpose a prior contribution that had been made to the endowment.

DBG Agave, LLC is an Arizona limited liability company organized by DBG in December 2010. DBG is the sole member of DBG Agave, LLC ("DBG Agave"). DBG Agave was created for the purpose of receiving and holding contributed interests in real estate, should DBG receive any such contributions in the future. DBG Agave has been inactive from inception (December 2010) through September 30, 2012, and had no assets or liabilities as of September 30, 2012.

### *Basis of Presentation*

The Garden reports 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. At September 30, 2012, the Board of Trustees has designated approximately \$157,000 of unrestricted net assets for asset replacement and approximately \$1,000 of unrestricted net assets as an operating reserve.

#### *Cash Equivalents*

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have maturities of ninety days or less when purchased. At times, cash and cash equivalent balances may exceed federally insured amounts. The Garden believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

#### *Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Garden does not require collateral for accounts receivable. Past due status is determined based upon invoice due date. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are considered by management to be collectible in full, and accordingly, an allowance for doubtful accounts has not been provided. Accounts receivable are included in "Other receivables" in the accompanying consolidated statement of financial position at September 30, 2012.

#### *Promises to Give*

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. 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" in the accompanying consolidated statement of activities. Conditional promises to give are not included as support until the conditions are substantially met.

The Garden's contributions receivable consist primarily of promises to give from individuals, employees and members of the Board of Trustees. Credit risk is limited due to the receipt of prior contributions from many of the individuals and their standing in the community, as well as the Garden's relationship with employees and members of the Board of Trustees. At September 30, 2012, the Garden considered all outstanding promises to give to be fully collectible.

#### *Inventories*

Inventories are stated at the lower of cost or market using the average cost method and consist primarily of liquor for events.

#### *Investments*

The Garden reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2012

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In accordance with the investment policies of the Garden, proceeds from investments which have matured are placed in a money market account until they are re-invested.

*Joint Venture*

The Garden owns 50% of Flora & Fauna, LLC ("F&F, LLC"), a joint venture created in May 2008 with another Arizona nonprofit corporation to facilitate the sale of a piece of real estate that had been donated jointly to the Garden and the other Arizona nonprofit organization. The donated real estate was subsequently sold in July 2009.

The Garden does not retain control of F&F, LLC; however, the Garden's ownership interest creates both the ability to exercise significant influence over F&F, LLC and an ongoing economic interest in the net assets of F&F, LLC. Accordingly, the Garden reports its interest in the net assets of F&F, LLC, as well as any changes in the net assets of F&F, LLC, in a manner similar to the equity method of accounting for investments in common stock. With the exception of the transactions associated with the initial contributed real estate during 2008 and 2009, F&F, LLC has had no other operations and was inactive during the year ended September 30, 2012. F&F, LLC had no assets or liabilities as of September 30, 2012.

*Property and Equipment*

Property and equipment are recorded at cost when purchased or fair value as of the date contributed. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs and maintenance that materially prolong the useful lives of assets are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	10 - 50 years
Ground installations	5 - 30 years
Office furniture, fixtures and equipment	7 years
Computer equipment and technology	3 - 5 years
Machinery and equipment	2 - 20 years
Master plan for buildings and exhibits	10 years
Vehicles	5 - 10 years

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Garden reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Garden reclassifies temporarily restricted net assets to unrestricted net assets at that time.

*Life Insurance Policies*

The Garden is the beneficiary of various donated life insurance policies with total cash surrender values of approximately \$42,000 and face values of approximately \$1,025,000 as of September 30, 2012. Changes in the value of these policies are included in "Change in value of split interest agreements" in the accompanying consolidated statement of activities for the year ended September 30, 2012.

*Impairment of Long-Lived Assets*

The Garden reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

*Deferred Revenue*

Deferred revenue consists primarily of unearned membership revenues and cash collected for certain events that will take place in the next fiscal year.

*Contributions*

The Garden accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same year the contribution is received, the Garden reports the support as unrestricted.

*Revenue Recognition*

The Garden records admissions revenue, which consists of ticket sales, as tickets are sold. Retail sales consist of gift shop sales, sales from carts located throughout the grounds, beverage sales, and semi-annual plant sales. Sales revenue is recognized when goods are sold. Membership revenue is recorded as unearned membership income and is recognized as revenue ratably over the term of the membership.

*Special Events Revenue*

The Garden conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Garden. The direct costs of the special events, which ultimately benefit the donor rather than the Garden, are recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are reported as gross profit on special events in the accompanying consolidated statement of activities. Direct costs incurred prior to the events are recorded as prepaid expenses in the accompanying consolidated statement of financial position until the event occurs, at which time they are recognized as special events costs.

#### *Donated Materials and Services*

The Garden recognizes donations of materials at their estimated fair value on the date received. The Garden recognizes donations of services received at their estimated fair value if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated. For the year ended September 30, 2012, the Garden recorded in-kind contributions totaling approximately \$734,000, which includes approximately \$314,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets. Other contributed materials and services consist primarily of donated catering and related services for special events totaling approximately \$127,000 (costs of direct donor benefits), donated advertising totaling approximately \$115,000 (retail, marketing, and visitor services expense), donated collection items totaling approximately \$65,000 (program expense), outside services totaling approximately \$47,000 (program expense), supplies totaling approximately \$27,000 (fundraising expense), and other items totaling approximately \$39,000 (primarily program expense).

A substantial number of other volunteers have donated significant amounts of their time to the Garden. The Garden estimates that the value of these services totaled approximately \$1,239,000 for the year ended September 30, 2012. However, no amounts have been reflected in the accompanying consolidated financial statements for these other volunteer services because they did not qualify for recording under current accounting requirements.

#### *Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited. Administration expense includes those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Garden.

Membership development expenses totaled approximately \$540,000 for the year ended September 30, 2012, and have been included in "Fundraising and membership expense" in the accompanying consolidated statement of activities.

#### *Advertising*

The Garden uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense totaled approximately \$430,000 (including in-kind advertising described above of approximately \$115,000) for the year ended September 30, 2012, and has been included in "Retail, marketing, and visitor services expense" in the accompanying 2012 consolidated statement of activities.

#### *Income Taxes*

The Garden is a nonprofit corporation exempt from both federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and similar state provisions. In addition, the Garden qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income would be taxed.

The Garden follows the guidance issued by the Financial Accounting Standards Board ("FASB") related to accounting for income tax uncertainties. Under this guidance, the Garden accounts for the effect of any uncertain tax positions based on whether it is "more-likely-than-not" that the position will be sustained by the taxing authority upon examination. The Garden routinely evaluates potential uncertain tax positions. The Garden has identified its status as an exempt organization as a tax position; however, the Garden has determined that such tax position does not result in an uncertainty that requires recognition.

The Garden files information returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of September 30, 2012, U.S. federal information returns for years ended prior to September 30, 2009 and state returns for years ended prior to September 30, 2008 were closed to assessment. Interest and penalties, if any, are accrued as a component of administration expenses when assessed.

#### *Prior Year Information*

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Garden's consolidated financial statements for the year ended September 30, 2011, from which the summarized information was derived.

## **2. Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

## **3. Contributions Receivable**

During 2006, the Garden began the "Tending the Garden" campaign. The purpose of this \$16 million campaign was to develop the Garden's financial resources to equal its outstanding programs, physical facilities and the living collections that are the Garden's greatest assets.

The campaign's plan for advancement included renovation of the Garden's exhibits to dramatize the impact of the living collections; expand education initiatives for teachers, students and garden visitors; and create funded positions for senior scientists and visiting fellows. The campaign also generated additional funding for permanently restricted net assets (the "endowment") that will ensure the Garden's physical renewal and support the pursuit of excellence in all future programs.

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2012

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Contributions receivable include unconditional promises to give and consisted of the following at September 30, 2012:

Purpose restrictions	
Garden exhibits and improvements	\$ 932,650
Education - Programs	32,477
Endowment	240,524
Other purpose restrictions	82,125
Time restrictions	150,000
Bequests receivable	<u>121,830</u>
Total contributions receivable	1,559,606
Less: Unamortized discount	<u>(79,486)</u>
Contributions receivable, net	<u>\$ 1,480,120</u>

Contributions receivable (before the unamortized discount) are due as follows at September 30, 2012:

Contributions receivable due in less than one year	\$ 698,606
Contributions receivable due in one to five years	751,000
Contributions receivable due thereafter	<u>110,000</u>
Total contributions receivable	<u>\$ 1,559,606</u>

The estimated cash flows for contributions receivable were discounted over the collection period using management determined, risk-adjusted discount rates. The discount rates are initially based on the Applicable Federal Rates ("AFR") at the date the promise to give was received, which ranged from 0.8% to 6.3%.

Contributions receivable from employees and members of the Board of Trustees (before the unamortized discount) were as follows at September 30, 2012:

Contributions receivable due in less than one year	\$ 187,001
Contributions receivable due in one to five years	<u>43,500</u>
Total contributions receivable due from employees and members of the Board of Trustees	<u>\$ 230,501</u>

As of September 30, 2012, an individual donor has promised to give the Garden approximately \$638,000 (total promise to give of \$1,000,000 less cash receipts through September 30, 2012 of approximately \$362,000). This promise to give is subject to significant conditions imposed by the donor; accordingly, this conditional promise has not been reflected in the accompanying consolidated financial statements.

#### 4. Fair Value Measurements

The Garden follows the authoritative guidance issued by the FASB for accounting for certain assets and liabilities that are required to be measured at fair value under U.S. GAAP on a recurring basis. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell).

The guidance also establishes a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The hierarchy below lists the three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. These levels are:

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

*Level 2* Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Following is a description of the valuation methodologies used for assets measured at fair value:

##### *Investments*

Investments consist of corporate stocks, mutual funds, and commodities and are valued at the net asset value of shares held by the Garden. Net asset value is based on quoted market prices for identical assets.

##### *Hedge Fund*

The hedge fund is composed of various Advisor Funds. The Advisor Funds are delineated into the following six categories (with approximate targeted percentages of the entire hedge fund): Opportunistic Equities (30%), Enhanced Fixed Income (20%), Absolute Return (15%), Tactical Trading (10%), and Private Equities (25%).

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Hedge funds are recorded at amounts reported in the monthly Advisor Fund statements. Using the nomenclature of the hedge fund industry, any values reported are expected to reasonably reflect market values of securities (when available) or fair value as of the hedge fund's valuation date. However, a substantial amount of time may elapse between the occurrence of an event necessitating the pricing of the hedge fund assets and the receipt of valuation information from the Advisor of an Advisor Fund.

*Split Interest Agreements*

During the year ended September 30, 2006, the Garden was named as the recipient of a beneficial interest in a Charitable Remainder Unitrust (the "CRUT"). The assets of the trust include shares of mutual funds and government bonds. The beneficiaries of the CRUT (the donors) retain the right to receive quarterly distributions over the trust's term (the beneficiaries' lifetimes). The quarterly distributions are to be in an amount equal to a specified percentage of the total trust asset value as of each January 1st. Upon the death of the beneficiaries, the remaining assets of the trust are to be available for the Garden, subject to donor-imposed restrictions that the funds be invested in perpetuity as part of the Garden's endowment.

The Garden's interest in the assets of the trust were initially measured based upon the present value of the estimated future cash flows. Adjustments to the value of the beneficial interest in the trust due to changes in present value or actuarial assumptions during the term of the CRUT are recognized as "Changes in the value of split-interest agreements" in the consolidated statement of activities. The change in the value of the CRUT for the year ended September 30, 2012 was an increase of approximately \$3,000.

The following table sets forth by level, within the fair value hierarchy, the Garden's assets that are measured at fair value as of September 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate stocks				
Domestic	\$ 1,176,077	\$ -	\$ -	\$ 1,176,077
International	112,175	-	-	112,175
Mutual funds - Equity				
Domestic	1,439,385	-	-	1,439,385
International	2,938,194	-	-	2,938,194
Mutual funds - Bonds	2,339,731	-	-	2,339,731
Commodity funds	303,518	-	-	303,518
Hedge funds	23,942	393,277	426,689	843,908
Split interest agreement	-	204,000	-	204,000
Total	<u>\$ 8,333,022</u>	<u>\$ 597,277</u>	<u>\$ 426,689</u>	<u>\$ 9,356,988</u>

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The assets above are included in the following line items in the accompanying consolidated statement of financial position at September 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current investments	\$ 695,055	\$ -	\$ -	\$ 695,055
Assets restricted for endowment:				
Investments	7,637,967	393,277	426,689	8,457,933
Split interest agreement	<u>-</u>	<u>204,000</u>	<u>-</u>	<u>204,000</u>
Total	<u>\$ 8,333,022</u>	<u>\$ 597,277</u>	<u>\$ 426,689</u>	<u>\$ 9,356,988</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs during the year ended September 30, 2012:

Level 3 beginning balance - September 30, 2011	\$ 433,501
Net realized and unrealized gains / (losses)	<u>(6,812)</u>
Level 3 ending balance - September 30, 2012	<u>\$ 426,689</u>

Net realized and unrealized gains and losses on the hedge fund have been included in "Net realized and unrealized gain on investments" in the accompanying consolidated statement of activities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Garden believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

## **5. Property and Equipment**

Property and equipment have been acquired since the Garden began operations in 1937. Property and equipment acquired in earlier years, where information concerning purchase cost was not generally available, have been recorded at amounts established for insurance purposes in 1980. Property and equipment acquired since 1980 have been recorded at purchased cost or, if contributed, at fair value on the date of gift. In 1980, accumulated depreciation was established by calculating depreciation retroactive from asset acquisition dates to 1980.

Property and equipment lives were determined based on the period from acquisition to 1980, plus their remaining estimated useful lives based on the current condition and planned use of the property and equipment. Subsequent acquisitions of property and equipment are recorded at cost or fair value at the date of gift.

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Property and equipment consisted of the following at September 30, 2012:

Buildings and building improvements	\$ 12,412,209
Ground installations	12,338,208
Computer equipment and technology	1,878,342
Office furniture, fixtures and equipment	1,523,356
Master plan for buildings and exhibits	705,986
Machinery and equipment	439,893
Vehicles	353,616
Construction-in-progress	<u>1,036,675</u>
Total property and equipment	30,688,285
Less - Accumulated depreciation	<u>(14,073,845)</u>
Property and equipment, net	<u>\$ 16,614,440</u>

Depreciation expense was approximately \$1,188,000 for the year ended September 30, 2012.

## **6. Collections**

Collections include the Garden's library and living plant collection, which are on display for the general public. These collection items are not capitalized by the Garden. The Garden's library consists of over 500 botanical periodicals and over 7,000 rare books, including floristic, ecological and horticultural works that relate to the deserts of the world. The library also includes materials on botanical illustration, plant taxonomy and nomenclature, edible and useful plants, rare and endangered plants, and desert ecology and conservation.

The living plant collection consists of plants that are rare and difficult to replace. The Garden employs horticulturists to ensure that the collection items are preserved and protected. Based on an independent study conducted in 2005 by an advisor from Arizona State University, a value of \$20 was estimated for each unprocessed herbarium specimen and a value of \$35 was estimated for each processed herbarium specimen, for an estimated total of herbarium specimens of \$2,520,000. In conformity with the practice followed by many gardens, specimens contributed to the Garden are not included in the accompanying consolidated financial statements.

Costs of purchasing collection items are included as a change in unrestricted net assets in "Program expense" in the accompanying consolidated statement of activities. During the year ended September 30, 2012, acquisitions and de-accessions of collection items were not significant.

## **7. Charitable Gift Annuity**

During the year ended September 30, 2007, the Garden received a \$100,000 bequest in the form of a Charitable Gift Annuity. The agreement provides for quarterly payments of approximately \$1,400 to the donors over the term of the agreement (the donors' expected lifetimes). The fair value of the assets received by the Garden was recorded as a permanently restricted contribution. A liability was recorded for the present value of the estimated annuity amounts payable to the beneficiaries over the expected term of the agreement using a discount rate of 5.6%.

The annuity liability balance is reduced by payments to the beneficiaries. Adjustments to the value of the annuity liability related to changes in present value or actuarial assumptions during the term of the gift annuity agreement are recognized as changes in the value of split-interest agreements in the consolidated statement of activities. The change in the value of the gift annuity liability for the year ended September 30, 2012 was a decrease of approximately \$3,000.

**8. Note Payable – Bank Line of Credit**

The Garden has an unsecured \$1,000,000 line of credit with a bank. Advances under this line of credit bear interest, payable monthly, at the 1-month LIBOR (0.21% at September 30, 2012) plus 3%. The line matured in March 2012, and the Garden subsequently renewed the line of credit through June 2013 under substantially the same terms.

The line of credit agreement requires the Garden to submit its annual audited financial statements to the bank no later than 120 days after its fiscal year end.

**9. Long-term Debt**

The Garden has a \$250,000 note payable agreement with a bank. The note is unsecured and bears interest, payable quarterly, at the 3-month LIBOR rate (0.36% at September 30, 2012) plus 1.7%. The note requires annual principal installments of \$50,000, which are due each December 31, and is scheduled to mature in December 2015. Annual principal payments on long-term debt for the years subsequent to September 30, 2012 are scheduled as follows:

<u>Year Ending</u> <u>September 30</u>	
2013	\$ 50,000
2014	50,000
2015	50,000
2016	<u>50,000</u>
Total note payable	200,000
Less - Current portion	<u>(50,000)</u>
Total long-term debt, less current portion	<u><u>\$ 150,000</u></u>

The note payable agreement requires the Garden to submit its annual audited financial statements to the bank no later than 150 days after its fiscal year end.

**10. Bonds Payable**

On September 1, 2000, the Garden issued \$16,300,000 of Adjustable Rate Demand Revenue Bonds, Series 2000 ("the Bonds") through the Industrial Development Authority of the City of Phoenix, Arizona. The Bonds are collateralized by an irrevocable transferable direct pay Letter of Credit ("Letter of Credit") of the Garden as set forth in the Trust Indenture dated September 1, 2000. Interest on the Bonds is payable monthly under variable interest rate provisions. The Bonds were initially issued in the weekly rate mode under which the interest rate is determined on a weekly basis. The Bonds contain conversion features to other adjustable and fixed rate methods of interest rate determination. The annualized weekly interest rate in effect at September 30, 2012 was 0.19%.

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The stated maturity date of the Bonds is July 1, 2035, and is subject to optional redemption provisions prior to maturity based upon certain circumstances described in the Trust Indenture. As of September 30, 2012, \$15,700,000 of bond principal had been redeemed early, leaving a total outstanding balance of \$600,000.

The Letter of Credit, which is scheduled to expire on September 9, 2015 and serves as collateral for the Bonds, has a maximum borrowing amount of \$603,101, of which \$600,000 may be drawn to pay principal of the Bonds and \$3,101 may be drawn to pay interest on the Bonds. The Letter of Credit is unsecured and bears a variable interest rate, which is determined based upon the nature of the amounts drawn, and provides for a variable facility fee amount based upon certain liquidity provisions. Additionally, the letter of credit requires the Garden to maintain certain net asset, liquidity, and indebtedness ratios and to comply with certain other general covenants of both the Letter of Credit and the Trust Indenture.

**11. Trustee Notes Payable**

During the year ended September 30, 2012, the Garden entered into unsecured note payable agreements with 14 members of the Board of Trustees, with principal amounts totaling \$650,000. The notes payable require annual interest-only payments at a rate of 2.50%. Principal balances are payable upon maturity, in April 2015. The notes are subordinated to the Garden's line of credit (Note 8), long-term debt (Note 9) and bonds payable (Note 10). Interest expense on these notes for the year ended September 30, 2012 totaled approximately \$8,000, all of which was accrued and has been included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position.

**12. Temporarily Restricted Net Assets**

During the year ended September 31, 2012, a donor who had previously contributed \$500,000 to the endowment contacted the Garden and requested to change the purpose restriction on a previous gift from the endowment to the Garden's exhibits and improvements. Accordingly, the accompanying consolidated statement of activities reflects the reclassification of this amount from permanently restricted net assets to temporarily restricted net assets.

Temporarily restricted net asset activity for the year ended September 30, 2012 was as follows:

	Balance 09/30/11	Contributions	Donor Repurpose	Releases	Balance 09/30/12
Purpose restrictions					
Garden exhibits and improvements	\$ 125,500	\$ 1,763,808	\$ 500,000	\$ (552,216)	\$ 1,837,092
Education programs	284,097	196,411	-	(271,364)	209,144
Research	657,562	12,000	-	(173,532)	496,030
Dr. Huizingh Fellowship	100,117	8,250	-	-	108,367
Other	291,713	211,285	-	(235,755)	267,243
Time restrictions					
General	388,250	23,338	-	(266,250)	145,338
Earnings on endowment	-	767,892	-	-	767,892
Total	<u>\$ 1,847,239</u>	<u>\$ 2,982,984</u>	<u>\$ 500,000</u>	<u>\$ (1,499,117)</u>	<u>\$ 3,831,106</u>

### 13. Permanently Restricted Net Assets

Permanently restricted net assets are to provide a permanent endowment with investment income available for the operating expenses of the Garden. Investment income and gains or losses on the investment of endowment assets are reported as increases or decreases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use.

The Garden's endowment consists of funds established for the future prosperity of the Garden. The endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona enacted a version of the Uniform Prudent Management of Institutional Funds Act ("SPMIFA") in June 2008. The Board of Trustees of the Garden has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Garden classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Garden in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Garden considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Garden and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Garden
- The investment policies of the Garden

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. Under this policy the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

The Garden's annual appropriations are at the discretion of the Board of Trustees unless specific instructions were provided by the endowment donors.

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 SPMIFA requires the Garden to retain as a fund of perpetual duration. As of September 30, 2012, the Garden had sufficient funds allocated to the endowment.

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Changes in endowment net assets for the year ended September 30, 2012 were as follows:

	<u>Permanently Restricted</u>			<u>Total</u>
	<u>Temporarily Restricted</u>	<u>Invested Assets</u>	<u>Contributions Receivable, Split Interest Agreements, and Other</u>	
Endowment net assets, beginning of year	\$ -	\$ 8,740,513	\$ 586,669	\$ 9,327,182
Investment income	254,805	-	-	254,805
Net realized and unrealized gains/(losses)	1,083,420	-	-	1,083,420
New contributions	-	53,012	8,000	61,012
Change in allowance and discount on receivable	-	-	53,440	53,440
Loss on uncollectible pledges	-	-	(8,329)	(8,329)
Payments on pledges restricted to the endowment	-	199,410	(199,410)	-
Change in split interest agreements	-	-	14,679	14,679
Donor repurpose	-	(500,000)	-	(500,000)
Appropriation of endowment assets for expenditure	<u>(570,333)</u>	<u>-</u>	<u>-</u>	<u>(570,333)</u>
Endowment net assets, end of year	<u>\$ 767,892</u>	<u>\$ 8,492,935</u>	<u>\$ 455,049</u>	<u>\$ 9,715,876</u>

**14. Commitments**

*Operating Leases*

The Garden leases the land on which the garden is located from the City of Phoenix for one dollar per year. The agreement stipulates that the Garden will pay \$1 per year as rent for the property. The unique nature and location of the leased property make it impossible to determine the fair value of the donated use of this property. Accordingly, no amounts have been recorded in the accompanying consolidated financial statements for the excess of the fair value of the donated use of property over annual lease payments. The lease provides for an undetermined number of automatic successive renewals for terms of five years each. The current lease has been extended to 2017.

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September 30, 2012

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The Garden also leases other office equipment with terms expiring through May 2017. Monthly payments on noted leases total approximately \$12,000.

The future minimum lease payments required under these noncancelable operating leases are as follows:

<u>Year Ending</u> <u>September 30</u>	
2013	\$ 158,188
2014	135,322
2015	103,310
2016	102,796
2017	<u>57,863</u>
Total minimum future rental payments	<u>\$ 557,479</u>

In the normal course of business, operating leases are generally renewed or replaced by other leases. Lease expense totaled approximately \$129,000 for the year ended September 30, 2012.

*Other*

On November 28, 1988, the Garden signed agreements with the City of Phoenix whereby \$1,000,000 was received for the repair and refurbishment of the Webster Auditorium complex and related projects such as a new parking lot and improvements to water and sewage systems. The refurbishment of the auditorium and the other related construction projects were completed during 1990. In consideration of the amount received, the Garden committed to provide certain landscape consulting services to the City of Phoenix for a period of thirty-five years.

**15. Employee Benefit Plans**

The Garden has a 401(k) profit sharing plan (the "Plan"), which covers substantially all employees after specified periods of service and eligibility requirements have been met. The Garden's contributions are based upon a fixed percentage of the employee's base pay. Contribution percentages are established in the Plan documents and are determined annually by the Garden's Board of Trustees. The Garden's contributions were approximately \$146,000 for the year ended September 30, 2012.

The Garden also has a 457(f) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(f) Plan") covering the current Executive Director. The Non-Qualified 457(f) Plan provides for employer contributions at the discretion of the Board of Trustees of the Garden. The Garden did not make any contributions to the Non-Qualified 457(f) Plan during the year ended September 30, 2012. The Garden's accumulated contributions to the plan totaled approximately \$60,000 at September 30, 2012, all of which has been accrued and is included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position. While the Garden has set aside approximately \$79,000 in a separate account (representing accumulated contributions by the Garden, plus earnings thereon), these funds remain available to the general creditors of the Garden.

## 16. Cash Flow Information

### *Supplemental Disclosure of Cash Flow Information*

Cash paid for interest totaled approximately \$54,000 for the year ended September 30, 2012.

### *Schedule of Non-cash Investing and Financing Activities*

During the year ended September 30, 2012, the Garden purchased property and equipment through accounts payable for approximately \$249,000.

## 17. Concentrations

### *Support and Revenue*

During the year ended September 30, 2012, the Garden received contributions from two donors that each represented more than 10% of total contributions for the year. In addition, at September 30, 2012, promises to give from one of these donors represented more than 10% of outstanding contributions receivable. The representative percentage of total contributions and outstanding contributions receivable were as follows as of and for the year ended September 30, 2012:

	<u>Contributions</u>	<u>Contributions Receivable</u>
Donor A	28%	51%
Donor B	14%	0%
	<u>42%</u>	<u>51%</u>

### *Uninsured Cash*

Cash deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investors Protection Corporation (SIPC) are exposed to loss in the event of nonperformance by the financial institution. At times during the year, the Garden had cash in bank deposit accounts and money market accounts in excess of the FDIC and SIPC insurance coverage. Certain of the Garden's money market accounts are insured beyond FDIC and SIPC insurance limits. The Garden does not anticipate nonperformance by financial institutions. At September 30, 2012, the Garden did not have a significant uninsured balance.

## 18. Subsequent Events

Management has evaluated subsequent events through January 21, 2013, the date that the consolidated financial statements were available to be issued. Subsequent events not disclosed elsewhere are as follows:

### *Note Payable – Bank Line of Credit*

In November 2012, the line of credit agreement was amended to extend the maturity date to January 2, 2014 and to increase the maximum borrowings available under the line of credit to \$1,500,000 through October 31, 2013. On October 31, 2013, the maximum borrowings available will revert to \$1,000,000, and the Garden will be required to repay outstanding draws in excess of \$1,000,000, if any.

*Long-Term Debt*

In January 2013, the Garden entered into an unsecured note payable agreement with a not-for-profit organization. Maximum borrowings under the note total \$375,000, of which the Garden drew down \$350,000 in January 2013. Advances under the note bear interest at 3.50%. The note payable agreement requires quarterly interest payments beginning in March 2013 and annual principal payments of \$75,000 beginning in June 2014. The note is scheduled to mature in June 2018. The note is subordinate to the bank line of credit (Note 8) and the bonds payable (Note 10).

The note payable agreement requires compliance with certain financial and nonfinancial covenants, including maintenance of minimum debt service coverage amounts, as defined in the agreement, and submission of audited financial statements no later than 150 days after the Garden's fiscal year end.

*Trustee Notes Payable*

Subsequent to September 30, 2012, the Garden entered into an additional unsecured note payable agreement with a member of the Board of Trustees with a principal amount of \$25,000. The note payable is subject to the same interest rates, repayment terms and subordination features described in Note 11.

**SUPPLEMENTARY INFORMATION**

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**SCHEDULE 1 – CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
September 30, 2012

	DBG	Foundation	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,679,548	\$ 366,479	\$ -	\$ 2,046,027
Investments	79,190	615,865	-	695,055
Contributions receivable, net	286,431	-	-	286,431
Other receivables	64,216	-	-	64,216
Intercompany receivable / (payable)	(7,965)	7,965	-	-
Inventories	65,443	-	-	65,443
Prepaid expenses and other current assets	148,359	-	-	148,359
Total current assets	2,315,222	990,309	-	3,305,531
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	95,338	-	-	95,338
PROPERTY AND EQUIPMENT, net	16,614,440	-	-	16,614,440
OTHER ASSETS	73,858	-	-	73,858
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	9,849,991	-	(9,849,991)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	997,705	-	-	997,705
Contributions receivable, net	889,387	-	-	889,387
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	35,002	-	-	35,002
Investments	-	8,457,933	-	8,457,933
Contributions receivable, net	-	208,964	-	208,964
Beneficial interest in remainder trust	-	204,000	-	204,000
Cash surrender value of life insurance policies	-	42,085	-	42,085
	<u>\$ 30,870,943</u>	<u>\$ 9,903,291</u>	<u>\$ (9,849,991)</u>	<u>\$ 30,924,243</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Note payable - Bank line of credit	\$ 700,000	\$ -	\$ -	\$ 700,000
Current portion of long-term debt	50,000	-	-	50,000
Accounts payable and accrued liabilities	1,092,710	-	-	1,092,710
Deferred revenue	1,285,112	-	-	1,285,112
Annuity payment liability	-	5,600	-	5,600
Total current liabilities	3,127,822	5,600	-	3,133,422
DEFERRED REVENUE, less current portion	66,019	-	-	66,019
ANNUITY PAYMENT LIABILITY, less current portion	-	47,700	-	47,700
LONG-TERM DEBT, less current portion	150,000	-	-	150,000
BONDS PAYABLE	600,000	-	-	600,000
TRUSTEE NOTES PAYABLE	650,000	-	-	650,000
Total liabilities	4,593,841	53,300	-	4,647,141
NET ASSETS				
Unrestricted				
Designated by the Board of Trustees:				
Asset replacement	156,858	-	-	156,858
Operating reserve	1,000	-	-	1,000
Total designated	157,858	-	-	157,858
Nondesignated	13,340,154	169,117	(169,117)	13,340,154
Total unrestricted net assets	13,498,012	169,117	(169,117)	13,498,012
Temporarily restricted	3,831,106	767,892	(767,892)	3,831,106
Permanently restricted	8,947,984	8,912,982	(8,912,982)	8,947,984
Total net assets	26,277,102	9,849,991	(9,849,991)	26,277,102
	<u>\$ 30,870,943</u>	<u>\$ 9,903,291</u>	<u>\$ (9,849,991)</u>	<u>\$ 30,924,243</u>

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**SCHEDULE 2 – CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
September 30, 2011

	DBG	Foundation	Eliminations	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,258,188	\$ 226,867	\$ -	\$ 1,485,055
Investments	61,063	-	-	61,063
Contributions receivable, net	395,181	-	-	395,181
Other receivables	18,095	-	-	18,095
Intercompany receivable / (payable)	1,750	(1,750)	-	-
Inventories	220,740	-	-	220,740
Prepaid expenses and other current assets	219,848	-	-	219,848
Total current assets	2,174,865	225,117	-	2,399,982
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	165,627	-	-	165,627
PROPERTY AND EQUIPMENT, net	16,951,264	-	-	16,951,264
OTHER ASSETS	73,858	-	-	73,858
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	9,461,297	-	(9,461,297)	-
<b>ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS</b>				
Cash and cash equivalents	2,500	-	-	2,500
Contributions receivable, net	123,000	-	-	123,000
<b>ASSETS RESTRICTED FOR ENDOWMENT</b>				
Cash and cash equivalents	35,002	491,838	-	526,840
Investments	-	8,213,673	-	8,213,673
Contributions receivable, net	-	355,263	-	355,263
Beneficial interest in remainder trust	-	201,000	-	201,000
Cash surrender value of life insurance policies	-	30,406	-	30,406
	<u>\$ 28,987,413</u>	<u>\$ 9,517,297</u>	<u>\$ (9,461,297)</u>	<u>\$ 29,043,413</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Note payable - Bank line of credit	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Current portion of long-term debt	50,000	-	-	50,000
Accounts payable and accrued liabilities	795,159	-	-	795,159
Deferred revenue	1,082,944	-	-	1,082,944
Annuity payment liability	-	5,600	-	5,600
Total current liabilities	2,928,103	5,600	-	2,933,703
DEFERRED REVENUE, less current portion	61,126	-	-	61,126
ANNUITY PAYMENT LIABILITY, less current portion	-	50,400	-	50,400
LONG-TERM DEBT, less current portion	200,000	-	-	200,000
BONDS PAYABLE	600,000	-	-	600,000
Total liabilities	3,789,229	56,000	-	3,845,229
<b>NET ASSETS</b>				
Unrestricted				
Designated by the Board of Trustees:				
Asset replacement	156,840	-	-	156,840
Operating reserve	34,049	-	-	34,049
Total designated	190,889	-	-	190,889
Nondesignated	13,832,874	169,117	(169,117)	13,832,874
Total unrestricted net assets	14,023,763	169,117	(169,117)	14,023,763
Temporarily restricted	1,847,239	-	-	1,847,239
Permanently restricted	9,327,182	9,292,180	(9,292,180)	9,327,182
Total net assets	25,198,184	9,461,297	(9,461,297)	25,198,184
	<u>\$ 28,987,413</u>	<u>\$ 9,517,297</u>	<u>\$ (9,461,297)</u>	<u>\$ 29,043,413</u>

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**SCHEDULE 3 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES**  
For the year ended September 30, 2012

	DBG	DBG Foundation	Eliminations	Consolidated
<b>SUPPORT AND REVENUE</b>				
Retail sales	\$ 1,777,123	\$ -	\$ -	\$ 1,777,123
Cost of retail sales	(953,573)	-	-	(953,573)
Gross profit on retail sales	823,550	-	-	823,550
Beverage sales	541,124	-	-	541,124
Cost of beverage sales	(113,363)	-	-	(113,363)
Gross profit on beverage sales	427,761	-	-	427,761
Total gross profit on retail and beverage sales	1,251,311	-	-	1,251,311
Contributions	3,519,900	98,123	-	3,618,023
Admissions	2,711,295	-	-	2,711,295
Memberships	2,039,411	-	-	2,039,411
Governmental contracts	267,259	-	-	267,259
Educational classes	296,546	-	-	296,546
Facility rental and concessions	441,025	-	-	441,025
Investment income	127	254,805	-	254,932
Net realized and unrealized gain / (loss) on investments	(258)	1,083,420	-	1,083,162
Change in value of split-interest agreements	-	11,479	-	11,479
Change in beneficial interest in net assets of DBG Foundation	1,390,372	-	(1,390,372)	-
Loss on disposal of assets	-	-	-	-
Other revenues and gains / (losses)	10,795	-	-	10,795
Total support and revenue before special events	11,927,783	1,447,827	(1,390,372)	11,985,238
Special events revenue	1,874,318	-	-	1,874,318
Less costs of direct donor benefits	(822,686)	-	-	(822,686)
Gross profit on special events	1,051,632	-	-	1,051,632
Total support and revenue	12,979,415	1,447,827	(1,390,372)	13,036,870
<b>EXPENSES</b>				
Program	6,418,222	-	-	6,418,222
Retail, marketing, and visitor services	2,675,952	-	-	2,675,952
Administration	1,453,760	57,455	-	1,511,215
Fundraising and membership	1,352,563	-	-	1,352,563
Total expenses	11,900,497	57,455	-	11,957,952
CHANGE IN NET ASSETS	1,078,918	1,390,372	(1,390,372)	1,078,918
NET ASSETS - Beginning of year	25,198,184	9,461,297	(9,461,297)	25,198,184
Transfer of assets from DBG to DBG Foundation	-	8,000	(8,000)	-
Transfer of assets from DBG Foundation to DBG	-	(1,009,678)	1,009,678	-
NET ASSETS - End of year	<u>\$ 26,277,102</u>	<u>\$ 9,849,991</u>	<u>\$ (9,849,991)</u>	<u>\$ 26,277,102</u>

**DESERT BOTANICAL GARDEN, INC. AND AFFILIATES**  
**SCHEDULE 4 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES**  
For the year ended September 30, 2011

	DBG	DBG Foundation	Eliminations	Consolidated
<b>SUPPORT AND REVENUE</b>				
Retail sales	\$ 2,056,041	\$ -	\$ -	\$ 2,056,041
Cost of retail sales	(998,343)	-	-	(998,343)
Gross profit on retail sales	1,057,698	-	-	1,057,698
Beverage sales	423,462	-	-	423,462
Cost of beverage sales	(97,964)	-	-	(97,964)
Gross profit on beverage sales	325,498	-	-	325,498
Total gross profit on retail and beverage sales	1,383,196	-	-	1,383,196
Contributions	2,447,457	20,000	-	2,467,457
Admissions	2,382,063	-	-	2,382,063
Memberships	1,841,158	-	-	1,841,158
Governmental contracts	129,759	-	-	129,759
Educational classes	337,883	-	-	337,883
Facility rental and concessions	444,539	-	-	444,539
Investment income	3,207	285,684	-	288,891
Net realized and unrealized gain / (loss) on investments	65	(779,783)	-	(779,718)
Change in value of split-interest agreements	-	28,341	-	28,341
Change in beneficial interest in net assets of DBG Foundation	(505,900)	-	505,900	-
Loss on disposal of assets	(34,949)	-	-	(34,949)
Other revenues and gains / (losses)	(5,690)	-	-	(5,690)
Total support and revenue before special events	8,422,788	(445,758)	505,900	8,482,930
Special events revenue	1,583,098	-	-	1,583,098
Less costs of direct donor benefits	(924,428)	-	-	(924,428)
Gross profit on special events	658,670	-	-	658,670
Total support and revenue	9,081,458	(445,758)	505,900	9,141,600
<b>EXPENSES</b>				
Program	5,965,885	-	-	5,965,885
Retail, marketing, and visitor services	2,442,588	-	-	2,442,588
Administration	1,502,516	60,142	-	1,562,658
Fundraising and membership	1,176,580	-	-	1,176,580
Total expenses	11,087,569	60,142	-	11,147,711
CHANGE IN NET ASSETS	(2,006,111)	(505,900)	505,900	(2,006,111)
NET ASSETS - Beginning of year	27,204,295	9,505,899	(9,505,899)	27,204,295
Transfer of assets from DBG to DBG Foundation	-	865,946	(865,946)	-
Transfer of assets from DBG Foundation to DBG	-	(404,648)	404,648	-
NET ASSETS - End of year	<u>\$ 25,198,184</u>	<u>\$ 9,461,297</u>	<u>\$ (9,461,297)</u>	<u>\$ 25,198,184</u>