

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

Consolidated financial statements
Together with independent auditor's report
And supplementary information

September 30, 2013



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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6
SUPPLEMENTARY INFORMATION	
Schedule 1 – Consolidating statement of financial position as of September 30, 2013	23
Schedule 2 – Consolidating statement of financial position as of September 30, 2012	24
Schedule 3 – Consolidating statement of revenues, support and expenses for the year ended September 30, 2013	25
Schedule 4 – Consolidating statement of revenues, support and expenses for the year ended September 30, 2012	26

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Desert Botanical Garden, Inc.

We have audited the accompanying consolidated financial statements of Desert Botanical Garden, Inc. (an Arizona nonprofit organization) and Affiliates (collectively, the "Garden"), which comprise the consolidated statement of financial position as of September 30, 2013 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Garden as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Garden's 2012 financial statements, and our report dated January 21, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 22, 2014

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2013
(with comparative totals as of September 30, 2012)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,582,631	\$ 2,046,027
Investments	1,276,060	695,055
Contributions receivable, net	630,878	286,431
Other receivables	53,697	64,216
Inventories	38,342	65,443
Prepaid expenses and other current assets	331,807	148,359
Total current assets	4,913,415	3,305,531
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	626,992	95,338
PROPERTY AND EQUIPMENT, net	18,068,303	16,614,440
OTHER ASSETS	73,858	73,858
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	384,764	997,705
Contributions receivable, net	876,678	889,387
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	134,752	35,002
Investments	8,620,493	8,457,933
Contributions receivable, net	200,659	208,964
Beneficial interest in remainder trust	151,000	204,000
Cash surrender value of life insurance policies	57,304	42,085
	<u>\$ 34,108,218</u>	<u>\$ 30,924,243</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable - Bank line of credit	\$ 750,000	\$ 700,000
Current portion of long-term debt	125,000	50,000
Accounts payable and accrued liabilities	1,260,660	1,092,710
Deferred revenue	1,830,591	1,285,112
Annuity payment liability	5,600	5,600
Total current liabilities	3,971,851	3,133,422
DEFERRED REVENUE, less current portion	343,471	66,019
ANNUITY PAYMENT LIABILITY, less current portion	53,300	47,700
LONG-TERM DEBT, less current portion	360,000	150,000
BONDS PAYABLE	600,000	600,000
TRUSTEE NOTES PAYABLE	570,000	650,000
Total liabilities	<u>5,898,622</u>	<u>4,647,141</u>
NET ASSETS		
Unrestricted		
Designated by the Board of Trustees:		
Asset replacement	123,863	156,858
Operating reserve	1,000	1,000
Total designated	124,863	157,858
Nondesignated	12,957,692	13,340,154
Total unrestricted net assets	13,082,555	13,498,012
Temporarily restricted	5,962,833	3,831,106
Permanently restricted	9,164,208	8,947,984
Total net assets	<u>\$ 34,108,218</u>	<u>\$ 30,924,243</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, 2013
(with comparative totals for the year ended September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total 2012
SUPPORT AND REVENUE					
Retail sales	\$ 1,055,849	\$ -	\$ -	\$ 1,055,849	\$ 1,777,123
Cost of retail sales	(273,587)	-	-	(273,587)	(953,573)
Gross profit on retail sales	782,262	-	-	782,262	823,550
Beverage sales	582,379	-	-	582,379	541,124
Cost of beverage sales	(119,357)	-	-	(119,357)	(113,363)
Gross profit on beverage sales	463,022	-	-	463,022	427,761
Total gross profit on retail and beverage sales	1,245,284	-	-	1,245,284	1,251,311
Contributions	2,129,981	3,421,262	254,005	5,805,248	3,618,023
Admissions	2,734,900	-	-	2,734,900	2,711,295
Memberships	2,259,130	-	-	2,259,130	2,039,411
Governmental contracts	137,647	-	-	137,647	267,259
Educational classes	294,570	-	-	294,570	296,546
Facility rental and concessions	431,977	-	-	431,977	441,025
Investment income	417,322	-	-	417,322	254,932
Net realized and unrealized gain / (loss) on investments	90,493	519,523	-	610,016	1,083,162
Change in value of split-interest agreements	(11,200)	-	(37,781)	(48,981)	11,479
Other revenues and gains / (losses)	86,667	-	-	86,667	10,795
Total support and revenue before special events and net assets released from restrictions	9,816,771	3,940,785	216,224	13,973,780	11,985,238
Special events revenue	1,988,574	-	-	1,988,574	1,874,318
Less costs of direct donor benefits	(783,392)	-	-	(783,392)	(822,686)
Gross profit on special events	1,205,182	-	-	1,205,182	1,051,632
Total support and revenue	11,021,953	3,940,785	216,224	15,178,962	13,036,870
NET ASSETS RELEASED FROM RESTRICTIONS	1,809,058	(1,809,058)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	12,831,011	2,131,727	216,224	15,178,962	13,036,870
EXPENSES					
Program	7,112,255	-	-	7,112,255	6,418,222
Retail, marketing, and visitor services	2,717,848	-	-	2,717,848	2,675,952
Administration	1,718,487	-	-	1,718,487	1,511,215
Fundraising and membership	1,697,878	-	-	1,697,878	1,352,563
Total expenses	13,246,468	-	-	13,246,468	11,957,952
CHANGE IN NET ASSETS	(415,457)	2,131,727	216,224	1,932,494	1,078,918
NET ASSETS - Beginning of year	13,498,012	3,831,106	8,947,984	26,277,102	25,198,184
NET ASSETS - End of year	\$ 13,082,555	\$ 5,962,833	\$ 9,164,208	\$ 28,209,596	\$ 26,277,102

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, 2013
(with comparative totals for the year ended September 30, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,932,494	\$ 1,078,918
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,089,911	1,187,998
Contributions restricted for investment in long-lived assets, improvements and endowment	(674,525)	(1,892,194)
Non-cash contribution - Forgiveness of trustee notes payable	(105,000)	-
Non-cash contribution of stock	(48,435)	(55,136)
Change in value of split-interest agreements	64,200	(100)
Change in cash surrender value of life insurance policies	(15,219)	(11,679)
Net realized and unrealized gains on investments	(610,016)	(1,083,162)
Change in discount on long-term contributions receivable	41,486	27,486
Change in valuation allowance for contributions receivable	12,525	(99,000)
(Increase) decrease in		
Other receivables	10,519	(46,121)
Contributions receivable	(941,990)	223,376
Inventories	27,101	155,297
Prepaid expenses and other current assets	(183,448)	71,489
Increase (decrease) in		
Accounts payable and accrued liabilities	30,564	48,475
Deferred revenue	822,931	207,061
Annuity payment liability	(5,600)	(5,600)
Net cash provided by (used in) operating activities	<u>1,447,498</u>	<u>(192,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in cash and cash equivalents restricted for investment in long-lived assets and improvements	612,941	(995,205)
(Increase) decrease in cash and cash equivalents restricted for endowment	(99,750)	491,838
Purchases of investments restricted to endowment	(162,560)	(244,260)
Proceeds from maturities and sales of investments	10,292,322	2,038,066
Purchases of investments	(10,184,934)	(1,484,113)
Purchases of property and equipment	<u>(2,406,388)</u>	<u>(602,098)</u>
Net cash used in investing activities	<u>(1,948,369)</u>	<u>(795,772)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in long-lived assets, improvements and endowment	677,475	1,249,636
Borrowings on note payable - Bank line of credit	1,150,000	700,000
Payments on note payable - Bank line of credit	(1,100,000)	(1,000,000)
Borrowings on long-term debt	350,000	-
Repayments on long-term debt	(65,000)	(50,000)
Borrowings on trustee notes payable	<u>25,000</u>	<u>650,000</u>
Net cash provided by financing activities	<u>1,037,475</u>	<u>1,549,636</u>
Net increase in cash and cash equivalents	536,604	560,972
CASH AND CASH EQUIVALENTS - Beginning of year	<u>2,046,027</u>	<u>1,485,055</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 2,582,631</u>	<u>\$ 2,046,027</u>

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

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").

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, 2012, the net amount of cash, investments, split interest agreements and contributions receivable related to the endowment that had been transferred from DBG to the Foundation totaled approximately \$7,609,000. During the year ended September 30, 2013, DBG did not transfer any additional assets related to the endowment to the Foundation. During the year ended September 30, 2013, the Foundation distributed approximately \$450,000 to DBG as a draw on accumulated investment earnings.

DBG Agave, LLC ("DBG Agave") is an Arizona limited liability company organized by DBG in December 2010. DBG is the sole member of 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, 2013, and had no assets or liabilities as of September 30, 2013.

Intercompany balances and transactions, which relate primarily to DBG's beneficial interest in the net assets of FDN, are eliminated in the consolidation.

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, 2013, the Board of Trustees has designated approximately \$124,000 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, 2013.

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.

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, 2013

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, 2013. F&F, LLC had no assets or liabilities as of September 30, 2013.

In January 2014, two additional nonprofit organizations became members of F&F, LLC, and the Garden's ownership was reduced to 25%.

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 \$57,000 and face values of approximately \$1,025,000 as of September 30, 2013. 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, 2013.

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 revenue earned from third-party operations of the restaurant and gift shop, semi-annual plant sales, beverage sales, and other fees. Retail revenue is recognized when goods are sold or services are provided. 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 amount 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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

In-kind contributions consisted of the following for the year ended September 30, 2013:

	Contributed				Total
	Services	Supplies	Advertising	Other	
Direct donor benefit	\$ 165,739	\$ -	\$ -	\$ -	\$ 165,739
Program	364,951	147,440	-	99,700	612,091
Retail, marketing, and visitor services	55,811	32,844	120,385	-	209,040
Administration	26,012	14,423	-	13,463	53,898
Fundraising and membership	53,671	6,015	-	15,000	74,686
Total	<u>\$ 666,184</u>	<u>\$ 200,722</u>	<u>\$ 120,385</u>	<u>\$ 128,163</u>	<u>\$ 1,115,454</u>

Contributed services above include approximately \$331,000 related to volunteer services for horticultural and research programs that require specialized skills and enhance nonfinancial assets. In addition, a substantial number of other volunteers have donated significant amounts of their time to the Garden. 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 \$644,000 for the year ended September 30, 2013, 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 \$379,000 (including in-kind advertising described above of approximately \$120,000) for the year ended September 30, 2013, and has been included in "Retail, marketing, and visitor services expense" in the accompanying 2013 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 files information returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of September 30, 2013, U.S. federal information returns for years ended prior to September 30, 2010 and state returns for years ended prior to September 30, 2009 were closed to assessment. Interest and penalties, if any, are accrued as a component of administration expenses when assessed.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

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.

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, 2012, 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

Contributions receivable include unconditional promises to give and consisted of the following at September 30, 2013:

The Saguaro Initiative Campaign	
Core trail	\$ 860,500
Conservation alliance	207,120
Horticulture center	31,450
Undesignated	941,585
Other purpose restrictions	
Garden exhibits and improvements	25,000
Education programs	2,477
Endowment	228,274
Other	72,298
Time restrictions	85,000
Bequests receivable	<u>15,000</u>
Total contributions receivable	2,468,704
Less: Unamortized discount	(120,972)
Less: Valuation allowance	<u>(12,525)</u>
Contributions receivable, net	<u><u>\$ 2,335,207</u></u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

Contributions receivable (before the unamortized discount and valuation allowance) are due as follows at September 30, 2013:

Contributions receivable due in less than one year	\$ 983,701
Contributions receivable due in one to five years	1,375,003
Contributions receivable due thereafter	<u>110,000</u>
Total contributions receivable	<u>\$ 2,468,704</u>

The estimated cash flows for contributions receivable were discounted over the collection period using management determined, risk-adjusted discount rates, which ranged from 1.93% to 6.3%.

Contributions receivable from employees and members of the Board of Trustees (before the unamortized discount) were as follows at September 30, 2013:

Contributions receivable due in less than one year	\$ 354,747
Contributions receivable due in one to five years	<u>726,002</u>
Total contributions receivable due from employees and members of the Board of Trustees	<u>\$ 1,080,749</u>

As of September 30, 2013, 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, 2013 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

Certain assets and liabilities of the Garden are required to be measured at fair value under U.S. GAAP on a recurring basis. Fair value is defined 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 fair value 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 investment is a multi-fund pool commonly referred to as a "fund of funds" incorporating between 10 and 20 hedge funds in each multi-fund pool. For the most part, hedge funds invest in marketable securities that trade in well-established and highly-liquid markets (stocks, bonds, futures, options, etc.).

Most hedge funds use independent fund administrators who obtain position prices from independent pricing services. These prices are often confirmed by prime brokers or custodians who are in possession of the actual securities.

The hedge fund vehicles are priced monthly by Citi Hedge Fund Services ("Citi HFS"), a division of Citigroup which is a US public company, and one of the largest independent fund administrators in the world. Citi HFS compiles the prices from each underlying hedge fund administrator to determine the monthly valuation for each multi-fund pool. Upon completion of the fund valuation, Citi HFS then computes the monthly individual investor valuations based upon their ownership share of each pool and provides this information to each investor's custodian.

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, 2013 was a decrease of approximately \$53,000.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate stocks				
Domestic	\$ 31,398	\$ -	\$ -	\$ 31,398
Mutual funds - Equity				
Domestic	3,829,585	-	-	3,829,585
International	2,941,174	-	-	2,941,174
Mutual funds - Bonds	1,682,876	-	-	1,682,876
Commodity funds	597,747	-	-	597,747
Hedge funds	-	-	813,773	813,773
Split interest agreement	-	151,000	-	151,000
Total	<u>\$ 9,082,780</u>	<u>\$ 151,000</u>	<u>\$ 813,773</u>	<u>\$ 10,047,553</u>

The assets above are included in the following line items in the accompanying consolidated statement of financial position at September 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current investments	\$ 1,276,060	\$ -	\$ -	\$ 1,276,060
Assets restricted for endowment:				
Investments	7,806,720	-	813,773	8,620,493
Split interest agreement	-	151,000	-	151,000
Total	<u>\$ 9,082,780</u>	<u>\$ 151,000</u>	<u>\$ 813,773</u>	<u>\$ 10,047,553</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, 2013:

Level 3 beginning balance - September 30, 2012	\$ 426,689
Additions - New investment purchases	800,000
Reductions - Sales of investments	(434,627)
Net realized and unrealized gains / (losses)	<u>21,711</u>
Level 3 ending balance - September 30, 2013	<u><u>\$ 813,773</u></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.

Property and equipment consisted of the following at September 30, 2013:

Buildings and building improvements	\$ 14,449,876
Ground installations	13,140,512
Computer equipment and technology	1,945,421
Office furniture, fixtures and equipment	1,529,356
Master plan for buildings and exhibits	705,986
Machinery and equipment	470,124
Vehicles	353,616
Construction-in-progress	<u>637,168</u>
Total property and equipment	33,232,059
Less - Accumulated depreciation	<u>(15,163,756)</u>
Property and equipment, net	<u>\$ 18,068,303</u>

Depreciation expense was approximately \$1,090,000 for the year ended September 30, 2013.

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. Adjusting these amounts for the annual Consumer Price Index ("CPI"), the Garden estimates that the value of each unprocessed specimen is approximately \$24 and the processed specimen value is approximately \$41, for an estimated total of herbarium specimens of approximately \$3,200,000. 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, 2013, 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, 2013 was an increase of approximately \$6,000.

8. Note Payable – Bank Line of Credit

The Garden has an unsecured line of credit with a bank. Advances under this line of credit bear interest, payable monthly, at the 1-month LIBOR (0.18% at September 30, 2013) plus 3%. The line was scheduled to mature in June 2013. In November 2012, the Garden amended the line of credit agreement to extend the maturity date to January 2, 2014 and to increase the maximum borrowings available under the line of credit from \$1,000,000 to \$1,500,000 through October 31, 2013. On October 31, 2013, the maximum borrowings available reverted to \$1,000,000. 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.

In December 2013, the line of credit agreement was amended to extend the maturity date to March 31, 2014.

9. Long-term Debt

Note Payable – Bank

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 (0.26% at September 30, 2013) 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. The note payable agreement also requires the Garden to submit its annual audited financial statements to the bank no later than 150 days after its fiscal year end.

Note Payable – Community Foundation

During the year ended September 30, 2013, the Garden entered into a \$350,000 note payable agreement with a nonprofit community foundation to finance certain capital projects. The note is unsecured and bears interest, payable quarterly, at 3.5%. The note requires annual principal installments of \$75,000 beginning June 30, 2014, and continuing annually through June 30, 2018, at which time any outstanding principal and accrued interest is due in full. The note is subordinate to the bank line of credit (Note 8) and the bonds payable (Note 10).

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

Future Principal Payments

Annual principal payments on long-term debt for the years subsequent to September 30, 2013 are scheduled as follows:

<u>Year Ending</u> <u>September 30</u>	
2014	\$ 125,000
2015	125,000
2016	110,000
2017	75,000
2018	<u>50,000</u>
Total note payable	485,000
Less - Current portion	<u>(125,000)</u>
Total long-term debt, less current portion	<u>\$ 360,000</u>

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, 2013 was 0.19%. 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, 2013, \$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 which 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

The Garden has unsecured note payable agreements with members of the Board of Trustees, with original principal amounts totaling \$675,000. 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), note payable to a bank (Note 9) and bonds payable (Note 10).

During the year ended September 30, 2013, certain Trustees made non-cash contributions to the Garden totaling approximately \$105,000, by forgiving all or a portion of the outstanding amounts under their note payable agreements.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

Interest expense on Trustee notes payable totaled approximately \$15,000 for the year ended September 30, 2013. Interest paid to Trustees on these notes payable totaled approximately \$16,000 for the year ended September 30, 2013. Accrued interest payable on these notes totaled approximately \$7,000 at September 30, 2013, which has been included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position.

12. Temporarily Restricted Net Assets

Temporarily restricted net asset activity for the year ended September 30, 2013 was as follows:

	Balance 09/30/12	Contributions	Releases	Balance 09/30/13
TSI Campaign				
Undesignated	\$ 1,500	\$ 2,257,539	\$ (183,040)	\$ 2,075,999
Core trail	945,087	301,892	(131,474)	1,115,505
Butterfly pavilion	-	500	-	500
Horticulture center	-	62,263	-	62,263
Conservation alliance	-	305,948	(74,612)	231,336
Community garden	20,999	10,000	(17,528)	13,471
Institutional planning and advancement	604	50,100	(26,963)	23,741
Other purpose restrictions				
Garden exhibits / improvements	875,517	8,756	(824,840)	59,433
Education programs	209,144	129,234	(134,852)	203,526
Research	515,730	97,396	(226,534)	386,592
Dr. Huizingh Fellowship	108,367	3,500	-	111,867
Other	240,928	189,472	(124,215)	306,185
Time restrictions				
General	145,338	4,662	(65,000)	85,000
Earnings on endowment	767,892	519,523	-	1,287,415
Total	<u>\$ 3,831,106</u>	<u>\$ 3,940,785</u>	<u>\$ (1,809,058)</u>	<u>\$ 5,962,833</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, 2013, the Garden had sufficient funds allocated to the endowment.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

Changes in endowment net assets for the year ended September 30, 2013 were as follows:

	Temporarily Restricted	Permanently Restricted		Total
		Invested Assets	Contributions Receivable, Split Interest Agreements, and Other	
Endowment net assets, beginning of year	\$ 767,892	\$ 8,492,935	\$ 455,049	\$ 9,715,876
Investment income	417,104	-	-	417,104
Net realized and unrealized gains/(losses)	608,961	-	-	608,961
New contributions		126,060	124,000	250,060
Change in allowance and discount on contributions receivable		-	3,945	3,945
Payments on contributions receivable restricted to the endowment		136,250	(136,250)	-
Change in split interest agreements	-	-	(37,781)	(37,781)
Appropriation of endowment assets for expenditure	<u>(506,542)</u>	<u>-</u>	<u>-</u>	<u>(506,542)</u>
Endowment net assets, end of year	<u>\$ 1,287,415</u>	<u>\$ 8,755,245</u>	<u>\$ 408,963</u>	<u>\$ 10,451,623</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.

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013

The Garden also leases other office equipment with terms expiring through January 2018. Monthly payments on these leases total approximately \$13,000.

The future minimum lease payments required under these non-cancelable operating leases are as follows:

<u>Year Ending</u> <u>September 30</u>	
2014	\$ 146,392
2015	141,904
2016	141,218
2017	109,214
2018	<u>13,017</u>
Total minimum future rental payments	<u>\$ 551,745</u>

In the normal course of business, operating leases are generally renewed or replaced by other leases. Lease expense totaled approximately \$153,000 for the year ended September 30, 2013.

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 \$161,000 for the year ended September 30, 2013.

The Garden also has a 457(f) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(f) Plan") covering the current Executive Director and another member of senior management. The Non-Qualified 457(f) Plan provides for employer contributions at the discretion of the Board of Trustees of the Garden. Contributions by the Garden to the Non-Qualified 457(f) Plan totaled approximately \$55,000 during the year ended September 30, 2013. The Garden's accumulated contributions to the Non-Qualified 457(f) Plan totaled approximately \$115,000 at September 30, 2013, 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 \$145,000 in a separate account (representing accumulated contributions by the Garden, plus earnings thereon), these funds remain available to the general creditors of the Garden.

The Garden also has a 457(b) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering the current Executive Director. The Non-Qualified 457(b) Plan provides for employee contributions. An employee is 100% vested in any elective contributions to the Non-Qualified 457(b) Plan, plus any investment earnings or losses. While the Garden has set aside approximately \$12,000 in a separate account (representing accumulated participant contributions, 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 \$64,000 for the year ended September 30, 2013.

Schedule of Non-cash Investing and Financing Activities

During the year ended September 30, 2013, the Garden purchased property and equipment through accounts payable for approximately \$137,000.

17. Concentrations

Support and Revenue

At September 30, 2013, promises to give from a single donor represented approximately 25% of total outstanding contributions receivable.

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, 2013, the Garden's uninsured cash balances totaled approximately \$2,632,000.

18. Contingencies

From time to time, the Garden is involved in legal proceedings which are defended and handled in the ordinary course of business. Management believes that the results of these legal proceedings will not have a material adverse effect on the Garden's financial condition.

19. Subsequent Events

Management has evaluated subsequent events through January 22, 2014, the date that the consolidated financial statements were available to be issued. Subsequent events not disclosed elsewhere are as follows:

Trustee Notes Payable

Subsequent to September 30, 2013 and through January 22, 2014, additional members of the Board of Trustees informed the Organization that they would forgive some or all of the principal amounts outstanding under their note payable agreements, totaling approximately \$75,000.

SUPPLEMENTARY INFORMATION

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 1 – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2013

	DBG	Foundation	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,204,993	\$ 377,638	\$ -	\$ 2,582,631
Investments	157,617	1,118,443	-	1,276,060
Contributions receivable, net	630,878	-	-	630,878
Other receivables	53,697	-	-	53,697
Intercompany receivable / (payable)	(19,351)	19,351	-	-
Inventories	38,342	-	-	38,342
Prepaid expenses and other current assets	331,807	-	-	331,807
Total current assets	3,397,983	1,515,432	-	4,913,415
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	626,992	-	-	626,992
PROPERTY AND EQUIPMENT, net	18,068,303	-	-	18,068,303
OTHER ASSETS	73,858	-	-	73,858
BENEFICIAL INTEREST IN NET ASSETS OF DBG FOUNDATION	10,390,901	-	(10,390,901)	-
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS				
Cash and cash equivalents	384,764	-	-	384,764
Contributions receivable, net	876,678	-	-	876,678
ASSETS RESTRICTED FOR ENDOWMENT				
Cash and cash equivalents	134,752	-	-	134,752
Investments	-	8,620,493	-	8,620,493
Contributions receivable, net	95,087	105,572	-	200,659
Beneficial interest in remainder trust	-	151,000	-	151,000
Cash surrender value of life insurance policies	-	57,304	-	57,304
	<u>\$ 34,049,318</u>	<u>\$ 10,449,801</u>	<u>\$ (10,390,901)</u>	<u>\$ 34,108,218</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Note payable - Bank line of credit	\$ 750,000	\$ -	\$ -	\$ 750,000
Current portion of long-term debt	125,000	-	-	125,000
Accounts payable and accrued liabilities	1,260,660	-	-	1,260,660
Deferred revenue	1,830,591	-	-	1,830,591
Annuity payment liability	-	5,600	-	5,600
Total current liabilities	3,966,251	5,600	-	3,971,851
DEFERRED REVENUE, less current portion	343,471	-	-	343,471
ANNUITY PAYMENT LIABILITY, less current portion	-	53,300	-	53,300
LONG-TERM DEBT, less current portion	360,000	-	-	360,000
BONDS PAYABLE	600,000	-	-	600,000
TRUSTEE NOTES PAYABLE	570,000	-	-	570,000
Total liabilities	5,839,722	58,900	-	5,898,622
NET ASSETS				
Unrestricted				
Designated by the Board of Trustees:				
Asset replacement	123,863	-	-	123,863
Operating reserve	1,000	-	-	1,000
Total designated	124,863	-	-	124,863
Nondesignated	12,957,692	169,117	(169,117)	12,957,692
Total unrestricted net assets	13,082,555	169,117	(169,117)	13,082,555
Temporarily restricted	5,962,833	1,287,415	(1,287,415)	5,962,833
Permanently restricted	9,164,208	8,934,369	(8,934,369)	9,164,208
Total net assets	28,209,596	10,390,901	(10,390,901)	28,209,596
	<u>\$ 34,049,318</u>	<u>\$ 10,449,801</u>	<u>\$ (10,390,901)</u>	<u>\$ 34,108,218</u>

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 2 – 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 3 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES
For the year ended September 30, 2013

	DBG	DBG Foundation	Eliminations	Consolidated
SUPPORT AND REVENUE				
Retail sales	\$ 1,055,849	\$ -	\$ -	\$ 1,055,849
Cost of retail sales	(273,587)	-	-	(273,587)
Gross profit on retail sales	782,262	-	-	782,262
Beverage sales	582,379	-	-	582,379
Cost of beverage sales	(119,357)	-	-	(119,357)
Gross profit on beverage sales	463,022	-	-	463,022
Total gross profit on retail and beverage sales	1,245,284	-	-	1,245,284
Contributions	5,746,080	59,168	-	5,805,248
Admissions	2,734,900	-	-	2,734,900
Memberships	2,259,130	-	-	2,259,130
Governmental contracts	137,647	-	-	137,647
Educational classes	294,570	-	-	294,570
Facility rental and concessions	431,977	-	-	431,977
Investment income	218	417,104	-	417,322
Net realized and unrealized gain / (loss) on investments	1,055	608,961	-	610,016
Change in value of split-interest agreements	-	(48,981)	-	(48,981)
Change in beneficial interest in net assets of DBG Foundation	991,157	-	(991,157)	-
Other revenues and gains / (losses)	86,667	-	-	86,667
Total support and revenue before special events	13,928,685	1,036,252	(991,157)	13,973,780
Special events revenue	1,988,574	-	-	1,988,574
Less costs of direct donor benefits	(783,392)	-	-	(783,392)
Gross profit on special events	1,205,182	-	-	1,205,182
Total support and revenue	15,133,867	1,036,252	(991,157)	15,178,962
EXPENSES				
Program	7,112,255	-	-	7,112,255
Retail, marketing, and visitor services	2,717,848	-	-	2,717,848
Administration	1,673,392	45,095	-	1,718,487
Fundraising and membership	1,697,878	-	-	1,697,878
Total expenses	13,201,373	45,095	-	13,246,468
CHANGE IN NET ASSETS	1,932,494	991,157	(991,157)	1,932,494
NET ASSETS - Beginning of year	26,277,102	9,849,991	(9,849,991)	26,277,102
Transfer of assets from DBG to DBG Foundation	-	-	-	-
Transfer of assets from DBG Foundation to DBG	-	(450,247)	450,247	-
NET ASSETS - End of year	\$ 28,209,596	\$ 10,390,901	\$ (10,390,901)	\$ 28,209,596

DESERT BOTANICAL GARDEN, INC. AND AFFILIATES
SCHEDULE 4 – CONSOLIDATING STATEMENT OF REVENUES, SUPPORT AND EXPENSES

For the year ended September 30, 2012

	DBG	DBG Foundation	Eliminations	Consolidated
SUPPORT AND REVENUE				
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)	-
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
EXPENSES				
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	\$ 26,277,102	\$ 9,849,991	\$ (9,849,991)	\$ 26,277,102