DESERT BOTANICAL GARDEN, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

September 30, 2009

DESERT BOTANICAL GARDEN, INC.
AND AFFILIATE

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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 Affiliate (collectively, the "Organization"), as of September 30, 2009 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization'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 Organization's 2008 consolidated financial statements, and in our report dated February 27, 2009, 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 Organization'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 Affiliate as of September 30, 2009 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.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
January 26, 2010

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DESERT BOTANICAL GARDEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2009
(with comparative totals as of September 30, 2008)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,180,763	$ 2,209,823
Investments	1,076,022	5,771,582
Contributions receivable, net	577,003	604,550
Other receivables	58,793	49,853
Inventories	146,188	183,257
Prepaid expenses and other current assets	165,230	424,304
Total current assets	7,203,999	9,243,369
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	468,625	846,874
INVESTMENTS	932,897	-
PROPERTY AND EQUIPMENT, net	17,905,644	16,716,846
BOND ISSUANCE COSTS, net	58,746	81,982
JOINT VENTURE	-	500,000
OTHER ASSETS	73,858	73,858
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	238,398	1,391,584
Contributions receivable, net	55,399	65,776
ASSETS RESTRICTED FOR ENDOWMENT		
Cash and cash equivalents	802,700	1,194,742
Investments	4,875,250	3,188,557
Contributions receivable, net	859,227	1,034,329
Beneficial interest in remainder trust	169,169	117,729
Cash surrender value of life insurance policies	12,733	4,600
	$ 33,656,645	$ 34,460,246
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 349,103	$ 397,957
Accrued liabilities	380,120	357,390
Deferred revenue	1,185,000	1,252,341
Annuity payment liability	1,363	1,793
Accrued interest	12,639	39,289
Total current liabilities	1,928,225	2,048,770
DEFERRED REVENUE, less current portion	52,824	73,732
ANNUITY PAYMENT LIABILITY, less current portion	74,932	75,616
BONDS PAYABLE	4,300,000	8,300,000
Total liabilities	6,355,981	10,498,118
NET ASSETS		
Unrestricted		
Designated by the Board of Trustees:		
Asset replacement	120,284	176
Operating reserve	1,052,926	257,672
Total designated	1,173,210	257,848
Nondesignated	15,696,684	13,680,550
Total unrestricted net assets	16,869,894	13,938,398
Temporarily restricted	3,711,691	4,483,773
Permanently restricted	6,719,079	5,539,957
Total net assets	27,300,664	23,962,128
	$ 33,656,645	$ 34,460,246

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

DESERT BOTANICAL GARDEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended September 30, 2009
(with summarized comparative totals for the year ended September 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total 2008
SUPPORT AND REVENUE					
Retail sales	$ 3,147,126	$ -	$ -	$ 3,147,126	$ 2,126,280
Cost of retail sales	(1,538,099)	-	-	(1,538,099)	(1,033,945)
Gross profit on retail sales	1,609,027	-	-	1,609,027	1,092,335
Beverage sales	549,829	-	-	549,829	433,758
Cost of beverage sales	(94,701)	-	-	(94,701)	(82,317)
Gross profit on beverage sales	455,128	-	-	455,128	351,441
Total gross profit on retail and beverage sales	2,064,155	-	-	2,064,155	1,443,776
Contributions	1,432,326	1,342,093	1,120,154	3,894,573	5,514,163
Admissions	6,237,656	-	-	6,237,656	1,942,915
Memberships	1,959,893	-	-	1,959,893	1,377,352
Governmental contracts	43,321	-	-	43,321	94,329
Educational classes	299,987	-	-	299,987	305,385
Facility rental and concessions	493,773	-	-	493,773	397,502
Investment income	437,890	-	-	437,890	561,960
Net realized and unrealized gain (loss) on investments	98,523	-	-	98,523	(826,671)
Change in value of split-interest agreements	(5,886)	-	58,968	53,082	(131,459)
Loss on joint venture	(60,613)	-	-	(60,613)	-
Loss on disposal of assets	(27,666)	-	-	(27,666)	-
Other revenues	34,575	-	-	34,575	70,024
Total support and revenue before special events and net assets released from restrictions	13,007,934	1,342,093	1,179,122	15,529,149	10,749,276
Special events revenue	1,747,269	-	-	1,747,269	1,493,720
Less costs of direct donor benefits	(1,077,974)	-	-	(1,077,974)	(1,063,678)
Gross profit on special events	669,295	-	-	669,295	430,042
Total support and revenue	13,677,229	1,342,093	1,179,122	16,198,444	11,179,318
NET ASSETS RELEASED FROM RESTRICTIONS	2,114,175	(2,114,175)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	15,791,404	(772,082)	1,179,122	16,198,444	11,179,318
EXPENSES					
Program	6,702,998	-	-	6,702,998	4,867,067
Retail, marketing, and visitor services	2,968,495	-	-	2,968,495	2,059,294
Administration	1,747,828	-	-	1,747,828	1,160,349
Fundraising and membership	1,440,587	-	-	1,440,587	1,380,442
Total expenses	12,859,908	-	-	12,859,908	9,467,152
CHANGE IN NET ASSETS	2,931,496	(772,082)	1,179,122	3,338,536	1,712,166
NET ASSETS - Beginning of year	13,938,398	4,483,773	5,539,957	23,962,128	22,249,962
NET ASSETS - End of year	$ 16,869,894	$ 3,711,691	$ 6,719,079	$ 27,300,664	$ 23,962,128

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

DESERT BOTANICAL GARDEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended September 30, 2009
(with summarized comparative totals for the year ended September 30, 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,338,536	$ 1,712,166
Adjustments to reconcile change in net assets to		
to net cash provided by operating activities		
Depreciation	1,200,927	930,089
Amortization of bond issuance costs	23,236	3,037
Contributions restricted for investment in long-lived		
assets, improvements and endowment	(1,713,405)	(2,287,028)
Non-cash contribution of property	(35,650)	(9,000)
Non-cash contribution of real-estate	-	(500,000)
Non-cash contribution of life insurance policy	-	(4,600)
Non-cash contribution of stock	(47,026)	(94,663)
Change in value of split-interest agreements	(57,326)	131,459
Change in cash surrender value of life insurance policies	(8,133)	-
Net realized and unrealized (gains) losses on investments	(98,523)	826,671
Change in discount on long-term contributions receivable	(97,115)	19,000
Change in valuation allowance for contributions receivable	(25,899)	171,532
Loss on disposal of property	27,666	-
Loss on joint venture	60,613	-
(Increase) decrease in		
Other receivables	(8,940)	26,963
Contributions receivable	464,640	(338,109)
Inventories	37,069	2,863
Prepaid expenses and other current assets	259,074	(265,337)
Increase (decrease) in		
Accounts payable	(97,533)	154,167
Accrued liabilities	22,730	103,395
Deferred revenue	(88,249)	394,172
Annuity payment liability	7,000	(8,921)
Accrued interest	(26,650)	2,377
Net cash provided by operating activities	3,137,042	970,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in cash and cash equivalents restricted for investment in		
long-lived assets and improvements	1,153,186	1,308,228
(Increase) decrease in cash and cash equivalents restricted for endowment	392,042	(1,122,895)
Purchases of investments restricted to endowment	(1,686,693)	(295,279)
Proceeds from maturities and sales of investments	5,701,557	474,292
Purchases of investments	(1,129,478)	(6,883,012)
Cash received from joint venture (Note 1)	439,387	-
Purchases of property and equipment	(2,333,062)	(2,944,451)
Net cash provided by (used in) investing activities	2,536,939	(9,463,117)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in long-lived assets,		
improvements and endowment	1,296,959	2,195,761
Payments on bonds payable	(4,000,000)	-
Net cash provided by (used in) financing activities	(2,703,041)	2,195,761
Net increase (decrease) in cash and cash equivalents	2,970,940	(6,297,123)
CASH AND CASH EQUIVALENTS - Beginning of year	2,209,823	8,506,946
CASH AND CASH EQUIVALENTS - End of year	$ 5,180,763	$ 2,209,823

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 Organization has more than 50,000 individual plants representing 3,820 different species from the deserts of the world. Research facilities include a botanical library with over 7,300 books and serial publications on deserts and desert plants, and a herbarium that houses 62,093 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 and Desert Botanical Garden Foundation (collectively, the “Organization”). Desert Botanical Garden Foundation (the “Affiliate”) is a nonprofit corporation and was incorporated under the laws of the state of Arizona in August 2008. The Affiliate was organized for educational and charitable purposes for the benefit of, and to carry out certain purposes of, DBG. The Affiliate operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Affiliate was inactive for the period from its inception (August 2008) through September 30, 2008 and had no assets or liabilities at September 30, 2008. During the year ended September 30, 2009, DBG transferred all of the cash, investments and contributions receivable related to the Organization’s endowment, which totaled approximately $6,000,000, to the Affiliate.

Intercompany balances and transactions are eliminated in the consolidation.

Basis of Presentation

The Organization 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, 2009, the Board of Trustees has designated approximately $120,000 of unrestricted net assets for asset replacement and approximately $1,053,000 of unrestricted net assets as an operating reserve.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Organization 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 Organization 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.

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 contribution support. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization'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 Organization's relationship with employees and members of the Board of Trustees.

The Organization's contributions receivable are included in the accompanying consolidated statement of financial position as current contributions receivable ($577,003), contributions receivable to be received in excess of one year ($468,625), contributions receivable restricted for long-lived assets and improvements ($55,399) and contributions receivable restricted for the permanent endowment ($859,227).

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost or market using the average cost method and consist primarily of garden shop items and liquor.

Investments

The Organization 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.

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

Joint Venture

During the year ended September 30, 2008, the Organization received a bequest of a 50% interest in a piece of residential real estate located in Paradise Valley, Arizona. The interest in the real estate was initially recorded at the estimated net realizable value (estimated sale proceeds less estimated costs to sell), which totaled $500,000. The other 50% interest in the real estate was held by another Arizona nonprofit corporation.

In May 2008, the Organization entered into a joint venture with the other Arizona nonprofit corporation to form a new limited liability company, Flora & Fauna, LLC ("F&F, LLC"), in order to facilitate the sale of the residence. In July 2008, both parties to the joint venture contributed their respective interests in the residence to F&F, LLC and, in return, each received 50% of the membership units of F&F, LLC. The Organization does not retain control of F&F, LLC; however, the Organization'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 Organization 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.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In July 2009, the real estate held by F&F, LLC was sold for approximately $964,000. The Organization received its proportionate share of the net proceeds, which totaled approximately $439,000, in July 2009. With the exception of this sale of real estate and the initial contribution of real estate described above, F&F, LLC had no other operations or activities during the period from inception (May 2008) through September 30, 2009, and had no assets or liabilities as of September 30, 2009. It is the intention of the members of F&F, LLC to dissolve the entity in the near future.

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 $1,000 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	45 - 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 Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Life Insurance Policies

The Organization is the beneficiary of various donated life insurance policies with total cash surrender values of approximately $13,000 and face values of approximately $1,025,000. Changes in the value of these policies are included in “Change in split interest agreements” in the accompanying consolidated statement of activities for the year ended September 30, 2009.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

The Organization 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 Organization 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 Organization reports the support as unrestricted.

Revenue Recognition

The Organization 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.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Events Revenue

The Organization 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 Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, 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 Organization 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. The Organization has reflected approximately $529,000 of contributed materials and approximately $164,000 of contributed services related to specialized skills in the consolidated statement of activities for the year ended September 30, 2009. Contributed materials and services consist primarily of donated catering and auction items for special events (costs of direct donor benefits), donated advertising (retail, marketing, and visitor services expense), and donated time from individuals possessing specialized horticultural and research skills (program expense).

No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under current accounting requirements; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns. The Organization received volunteer time and other donated services valued at approximately $619,400, representing 61,940 hours, for the year ended September 30, 2009 that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying consolidated financial statements.

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 Organization.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Membership development expenses totaled approximately $498,000 for the year ended September 30, 2009, and have been included in fundraising and membership expense in the accompanying consolidated statement of activities.

Advertising

The Organization uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense totaled approximately $650,000 for the year ended September 30, 2009, and has been included in retail, marketing, and visitor services expense in the accompanying 2009 consolidated statement of activities.

Income Taxes

The Organization is a nonprofit corporation exempt from both federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. In addition, the Organization 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 Financial Accounting Standards Board ("FASB") has issued authoritative guidance for accounting for uncertainty in income taxes. The guidance requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. In December 2008, the FASB deferred the effective date of this guidance for certain nonpublic enterprises to fiscal years beginning after December 15, 2008. The Organization has elected to defer the implementation of this guidance until the year ending September 30, 2010. The Organization does not believe its consolidated financial statements include (or reflect) any uncertain tax positions, and the adoption of this new guidance is not expected to have a significant impact on the Organization's consolidated financial statements.

New Accounting Pronouncements

On July 1, 2009, the Organization adopted the authoritative guidance issued by the FASB that the Accounting Standards Codification ("ASC") be recognized as the source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP"). The Codification did not change U.S. GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized single source of authoritative GAAP. Adoption of the new guidance did not have a material impact on the Organization's consolidated financial statements.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On October 1, 2008, the Organization adopted the guidance issued by the FASB on subsequent events. The guidance sets forth: 1) the period after the statement of financial position date during which management of the Organization should evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; 2) the circumstances under which the Organization should recognize events or transactions occurring after the statement of financial position date in its consolidated financial statements; and 3) the disclosures that the Organization should make about events or transactions that occurred after the date of the consolidated statement of financial position. The Organization has evaluated subsequent events through the date the consolidated financial statements were issued on January 26, 2010.

Effective October 1, 2008, the Organization adopted the authoritative guidance issued by the FASB on fair value measurements, which establishes a framework for defining fair value as it relates to other accounting pronouncements that require or permit fair value measurements, and expands the disclosures of fair value measurements. Adoption of this new guidance did not have a material effect on the Organization's consolidated financial position.

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 Organization's consolidated financial statements for the year ended September 30, 2008, 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 Organization began the "Tending the Garden" campaign. The purpose of this $16 million campaign is to develop the Organization's financial resources to equal its outstanding programs, physical facilities and the living collections that are the Organization's greatest assets.

(3) CONTRIBUTIONS RECEIVABLE (continued)

The campaign's plan for advancement includes renovation of the Organization'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 will also generate additional funding for permanently restricted net assets (the "endowment") that will ensure the Organization's physical renewal and support the pursuit of excellence in all future programs.

Contributions receivable include unconditional promises to give and consisted of the following at September 30, 2009:

Restricted contributions receivable - Tending the Garden Campaign	
The Garden	$ 66,000
Education - Programs	218,089
Research	2,357
Institutional Support	1,060,839
Endowment	1,034,569
Total contributions receivable	2,381,854
Less: Unamortized discount	(137,885)
Less: Valuation allowance	(283,715)
Contributions receivable, net	$ 1,960,254

Contributions receivable (before the unamortized discount and valuation allowance) are due as follows at September 30, 2009:

Contributions receivable due in less than one year	$ 1,244,883
Contributions receivable due in one to five years	1,026,971
Contributions receivable due thereafter	110,000
Total contributions receivable	$ 2,381,854

The estimated cash flows for contributions receivable were discounted over the collection period using a management determined discount rate of 5%.

(3) CONTRIBUTIONS RECEIVABLE (continued)

Contributions receivable from employees and members of the Board of Trustees (before the unamortized discount and valuation allowance) were as follows at September 30, 2009:

Contributions receivable due in less than one year	$ 507,652
Contributions receivable due in one to five years	157,347
Total contributions receivable due from employees and members of the Board of Trustees	$ 664,999

As of September 30, 2009, an individual donor has promised to give the Organization approximately $705,000 (total promise to give of $1,000,000 less cash receipts through September 30, 2009 of approximately $295,000). 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.

Additionally, as of September 30, 2009 a charitable trust has promised to give the Organization $250,000 (total contribution of $800,000, less cash receipts of $550,000 through September 30, 2009). 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.

During 2007, a foundation informed the Organization that it would donate up to $850,000 in matching funds if the Organization was able to raise a specified dollar amount of additional restricted private gifts for the campaign within a specified time period. Because this promise to give was subject to significant conditions imposed by the foundation, it was not reflected in the Organization's consolidated financial statements until the conditions were substantially met. During the year ended September 30, 2009, the Organization met the required goal and the foundation contributed $850,000 to the Organization.

(4) FAIR VALUE MEASUREMENTS

As described in Note 1, the Organization adopted 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:

(4) FAIR VALUE MEASUREMENTS (continued)

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, corporate bonds, mutual funds, and commodities are valued at the net asset value of shares held by the Organization. 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 percentages of the entire hedge fund): Opportunistic Equities (31%), Enhanced Fixed Income (19%), Absolute Return (19%), Real Estate (9%), Private Equities (10%), and Energy/Natural Resources (12%).

(4) FAIR VALUE MEASUREMENTS (continued)

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 Organization 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 Organization, subject to donor-imposed restrictions that the funds be invested in perpetuity as part of the Organization's endowment.

The Organization'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, 2009 was an increase of approximately $51,000.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value as of September 30, 2009 or during the year then ended:

	Level 1	Level 2	Level 3	Total
Stocks and equity funds	$ 2,954,991	$ -	$ -	$ 2,954,991
Corporate bonds	2,008,919	-	-	2,008,919
Bond funds	1,637,747	-	-	1,637,747
Commodities	16,920	-	-	16,920
Hedge fund	82,334	183,258	-	265,592
Split interest agreement	-	169,169	-	169,169
Total	$ 6,700,911	$ 352,427	$ -	$ 7,053,338

(4) FAIR VALUE MEASUREMENTS (continued)

The assets above are included in the following line items in the accompanying consolidated statement of financial position at September 30, 2009:

	Level 1	Level 2	Level 3	Total
Current investments	$ 1,076,022	$ -	$ -	$ 1,076,022
Long-term investments	932,897	-	-	932,897
Assets restricted for endowment:				-
Investments	4,691,992	183,258	-	4,875,250
Split interest agreement	-	169,169	-	169,169
Current investments	$ 6,700,911	$ 352,427	$ -	$ 7,053,338

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 Organization 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 Organization 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.

(5) PROPERTY AND EQUIPMENT (continued)

Property and equipment consisted of the following at September 30, 2009:

Buildings and building improvements	$ 12,289,096
Ground installations	11,204,011
Office furniture, fixtures and equipment	1,461,809
Computer equipment and technology	1,687,565
Machinery and equipment	404,432
Master plan for buildings and exhibits	643,530
Vehicles	333,902
Construction-in-progress	323,318
Total property and equipment	28,347,663
Less - Accumulated depreciation	(10,442,019)
Property and equipment, net	$ 17,905,644

Depreciation expense totaled approximately $1,201,000 for the year ended September 30, 2009.

(6) COLLECTIONS

Collections include the Organization's library and living plant collection, which are on display for the general public. These collection items are not capitalized by the Organization. Costs of purchasing collection items are included as a change in unrestricted net assets. Purchases and deaccesssions of collection items during 2008 were not significant.

The Organization's library consists of 300 botanical periodicals and more than 6,000 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 Organization 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 $2,125,000. In conformity with the practice followed by many gardens, specimens contributed to the Organization are not included in the accompanying consolidated financial statements.

(7) BOND ISSUANCE COSTS

Bond issuance costs consist of legal costs, underwriting fees, printing costs and other costs incurred to obtain, secure and rate the bonds described below in Note 11. These issuance costs have an original cost of approximately $226,000 and are being amortized over the 35-year term of the bonds using the straight-line method (which approximates the effective interest method). Accumulated amortization on the bond issuance costs was approximately $167,000 at September 30, 2009.

(8) CHARITABLE GIFT ANNUITY

During the year ended September 30, 2007, the Organization 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 Organization was recorded as permanently restricted contribution revenue. 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, 2009 was a decrease of approximately $1,000.

(9) NOTE PAYABLE – BANK LINE OF CREDIT

The Organization had an unsecured $500,000 line of credit with a bank which matured in November 2009. Advances under this line of credit bear interest payable monthly at LIBOR (1.27% at September 30, 2009), plus 3%. There were no advances made under this line of credit during the year ended September 30, 2009.

In November 2009, the Organization renewed the line of credit through November 2010.

(10) BONDS PAYABLE

On September 1, 2000, the Organization 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 Organization as set forth in the Trust Indenture dated September 1, 2000.

(10) BONDS PAYABLE (continued)

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, 2009 was 0.37%. 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, 2009, $12,000,000 of bond principle had been redeemed early, leaving a total outstanding balance of $4,300,000. The initial deferred bond issuance costs described in Note 7 have been adjusted for the early redemption of the Bonds, and the remaining costs are being amortized over the original term of the Bonds. Subsequent to September 30, 2009 and through January 26, 2010, the Organization made principal payments on the bonds totaling approximately $1,200,000.

The Letter of Credit, which is provided as collateral for the Bonds, has a maximum borrowing amount of $4,946,986. 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. The Letter of Credit expires in September 2012.

The Organization is required to maintain certain net asset, liquidity, and indebtedness ratios, and must comply with other general covenants of both the Trust Indenture and the Letter of Credit. As of September 30, 2009, the Organization was in compliance.

(11) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2009:

Purpose restrictions for:	
The Garden Exhibits	$ 293,797
Education - Programs	339,051
Research	291,199
Institutional Support	2,615,695
Rare Plant Fund	42,549
Other	129,400
Total temporarily restricted net assets	$ 3,711,691

(12) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are to provide a permanent endowment with investment income available for the operating expenses of the Organization. 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 Organization's endowment consists of funds established for the future prosperity of the Organization. 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 Organization 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 Organization 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 Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization 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 Organization 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 Organization
- The investment policies of the Organization

(12) PERMANENTLY RESTRICTED NET ASSETS (continued)

The adoption of SPMIFA and the standards required by generally accepted accounting principles did not result in a change in the net asset classification of the Organization's endowment as of October 1, 2008.

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

Changes in endowment net assets for the year ended September 30, 2009 were as follows:

		Permanently Restricted			
	Temporarily Restricted	Invested Assets	Contributions Receivable	Split Interest Agreements and Other	Total
Endowment net assets, beginning of year	$ -	$ 4,383,299	$ 1,034,329	$ 122,329	$ 5,539,957
Investment income	137,554	-	-	-	137,554
Net realized and unrealized gains/(losses)	150,569	-	-	-	150,569
Contributions	-	1,065,607	-	-	1,065,607
Change in split interest agreements	-	-	-	58,968	58,968
Change in contributions receivable	-	-	54,547	-	54,547
Payments on pledges restricted to the endowment	-	229,649	(229,649)	-	-
Appropriation of endowment assets for expenditure	(288,123)	-	-	-	(288,123)
Other	-	(605)	-	605	-
Total funds	$ -	$ 5,677,950	$ 859,227	$ 181,902	$ 6,719,079

(12) PERMANENTLY RESTRICTED NET ASSETS (continued)

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 Organization to retain as a fund of perpetual duration. As of September 30, 2009, the Organization had sufficient funds allocated to the endowment.

(13) COMMITMENTS

Operating Leases

The Organization leases the land on which the garden is located from the City of Phoenix for one dollar per year. The agreement stipulates that the Organization 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 2012.

The Organization also leases other office equipment with terms expiring through March 2014. Monthly payments on noted leases total approximately $7,000.

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

Year Ending September 30	
2010	$ 90,769
2011	89,320
2012	84,973
2013	74,689
2014	21,573
Total minimum future rental payments	$ 361,324

In the normal course of business, operating leases are generally renewed or replaced by other leases. Lease expense totaled approximately $99,000 for the year ended September 30, 2009.

(13) COMMITMENTS (continued)

Other

On November 28, 1988, the Organization 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 Organization committed to provide certain landscape consulting services to the City of Phoenix for a period of thirty-five years.

(14) 401(K) PROFIT SHARING PLAN

The Organization 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 Organization'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 Organization's Board of Trustees. The Organization's contributions were approximately $133,000 for the year ended September 30, 2009.

(15) CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information

Cash paid for interest totaled approximately $156,000 for the year ended September 30, 2009.

Schedule of Non-cash Investing and Financing Activities

During the year ended September 30, 2009, certain individuals transferred shares of stock to the Organization in lieu of making cash payments on their outstanding contributions receivable balances. The transfer of stock was recorded at the fair value of stock on the date of transfer, which totaled approximately $20,000.

During the year ended September 30, 2009, the Organization purchased property and equipment through accounts payable for approximately $48,000.

(16) CONCENTRATIONS

Support and Revenue

The Organization received approximately $850,000, or approximately 5% of total support and revenue, from one donor during the year ended September 30, 2009.

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 Organization had cash in bank deposit accounts and money market accounts in excess of the FDIC and SIPC insurance coverage. Certain of the Organization's money market accounts are insured beyond FDIC and SIPC insurance limits. The Organization does not anticipate nonperformance by financial institutions. At September 30, 2009, the Organization had an uninsured cash balance of approximately $1,607,000.