



NATIONAL TROPICAL BOTANICAL GARDEN

Financial Statements and Schedules

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Board of Trustees
National Tropical Botanical Garden:

We have audited the accompanying balance sheets of National Tropical Botanical Garden (Garden) as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Garden's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Garden's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Tropical Botanical Garden as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

March 24, 2006

NATIONAL TROPICAL BOTANICAL GARDEN

Balance Sheets

December 31, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 277,896	687,215
Pledges receivable (note 2)	1,517,186	182,085
Grants receivable	99,841	200,403
Merchandise inventories	64,433	51,843
Prepaid expenses and other	287,364	149,987
Short-term investments (notes 3 and 7)	1,915,385	92,263
Land, buildings, equipment, and library, at cost, less accumulated depreciation and amortization (notes 4 and 7)	21,228,239	20,752,028
Botanical art collection	465,220	465,220
Assets held in charitable remainder annuity trust	—	73,631
Notes receivable (notes 5 and 13)	600,000	600,000
Land held for investment (note 13)	1,335,000	1,335,000
Loy McCandless Marks Botanical Library (notes 8 and 13)	8,000,000	8,000,000
Long-term investments (notes 3 and 7)	17,773,456	16,169,548
Beneficial interest in perpetual trust (note 8)	2,595,347	2,647,027
Total assets	\$ 56,159,367	51,406,250
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other	\$ 589,465	617,822
Liability under charitable remainder annuity trust agreements	31,907	40,513
Notes payable (note 7)	1,845,465	2,234,520
Total liabilities	2,466,837	2,892,855
Net assets:		
Unrestricted	11,070,512	10,665,808
Temporarily restricted (note 12)	12,318,215	9,096,012
Permanently restricted (note 13)	30,303,803	28,751,575
Total net assets	53,692,530	48,513,395
Commitments (notes 3, 6, 7, 8, 10, 11, and 14)		
Total liabilities and net assets	\$ 56,159,367	51,406,250

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statement of Activities

Year ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions and bequests (notes 2 and 8)	\$ 3,323,694	6,485,684	520,015	10,329,393
Net realized and unrealized gain on investments (note 3)	20,652	397,147	1,032,213	1,450,012
Tour and visitor center sales, net of costs of goods sold of \$236,290	1,144,174	—	—	1,144,174
Allerton fees and reimbursements (note 11)	868,457	—	—	868,457
Income from investments, net of management, custodial, and other fees of \$113,469 (note 3)	59,676	368,779	—	428,455
Net loss on disposal of land, buildings, and equipment	(758,502)	—	—	(758,502)
Other	334,994	—	—	334,994
Net assets released from restrictions (note 12):				
Satisfaction of program restrictions	3,687,096	(3,687,096)	—	—
Satisfaction of capital project restrictions	342,311	(342,311)	—	—
	<u>9,022,552</u>	<u>3,222,203</u>	<u>1,552,228</u>	<u>13,796,983</u>
Expenditures (notes 6 and 10):				
Gardens and preserves:				
McBryde	1,247,111	—	—	1,247,111
Kampong	734,121	—	—	734,121
Allerton	657,242	—	—	657,242
Limahuli	454,531	—	—	454,531
Kahanu	345,187	—	—	345,187
Research and education:				
Science and conservation	2,188,465	—	—	2,188,465
Visitor programs	623,673	—	—	623,673
Education	311,520	—	—	311,520
Administration and finance	1,468,340	—	—	1,468,340
Development	587,658	—	—	587,658
	<u>8,617,848</u>	<u>—</u>	<u>—</u>	<u>8,617,848</u>
Change in net assets	404,704	3,222,203	1,552,228	5,179,135
Net assets at beginning of year	<u>10,665,808</u>	<u>9,096,012</u>	<u>28,751,575</u>	<u>48,513,395</u>
Net assets at end of year	\$ <u><u>11,070,512</u></u>	<u><u>12,318,215</u></u>	<u><u>30,303,803</u></u>	<u><u>53,692,530</u></u>

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statement of Activities

Year ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions and bequests (notes 2 and 8)	\$ 2,416,049	3,883,250	—	6,299,299
Net realized and unrealized gain (loss) on investments (note 3)	(8,733)	514,449	1,131,084	1,636,800
Tour and visitor center sales, net of costs of goods sold of \$254,394	1,055,899	—	—	1,055,899
Allerton fees and reimbursements (note 11)	822,000	—	—	822,000
Income from investments, net of management, custodial, and other fees of \$116,685 (note 3)	61,838	288,982	—	350,820
Gain on disposal of land, buildings, and equipment	24,839	—	—	24,839
Other	663,535	—	—	663,535
Net assets released from restrictions (note 12):				
Satisfaction of program restrictions	3,256,191	(3,256,191)	—	—
Satisfaction of capital project restrictions	1,106,419	(1,106,419)	—	—
Total revenues, gains, and other support	9,398,037	324,071	1,131,084	10,853,192
Expenditures (notes 6 and 10):				
Gardens and preserves:				
McBryde	1,259,437	—	—	1,259,437
Limahuli	745,620	—	—	745,620
Kampong	731,926	—	—	731,926
Allerton	651,846	—	—	651,846
Kahanu	396,594	—	—	396,594
Research and education:				
Science and conservation	1,825,015	—	—	1,825,015
Visitor programs	541,221	—	—	541,221
Education	512,323	—	—	512,323
Administration and finance	1,539,029	—	—	1,539,029
Development	553,577	—	—	553,577
Total expenditures	8,756,588	—	—	8,756,588
Change in net assets	641,449	324,071	1,131,084	2,096,604
Net assets at beginning of year	10,024,359	8,771,941	27,620,491	46,416,791
Net assets at end of year	\$ <u>10,665,808</u>	<u>9,096,012</u>	<u>28,751,575</u>	<u>48,513,395</u>

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Statements of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 5,179,135	2,096,604
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net loss (gain) on disposal of land, buildings, and equipment	758,502	(24,839)
Depreciation	552,676	505,176
Decrease (increase) in pledges receivable	(1,335,101)	14,320
Decrease (increase) in grants receivable	100,562	(200,403)
Decrease (increase) in merchandise inventories	(12,590)	13,612
Decrease (increase) in prepaid expenses and other	(137,377)	16,556
Decrease in accounts payable and accrued expenses	(126,579)	(90,229)
Change in charitable remainder annuity trust, net	65,025	(13,156)
Contributions restricted for long-term investment	(4,852,730)	(787,408)
Net realized and unrealized gain on investments	(1,450,012)	(1,636,800)
Contributions of marketable security investments	(2,113,468)	(1,853,135)
Net cash used in operating activities	(3,371,957)	(1,959,702)
Cash flows from investing activities:		
Purchases of land, buildings, equipment, and library	(1,806,189)	(1,371,931)
Proceeds from sale of land, buildings, and equipment	18,800	40,329
Proceeds from sale of investments	16,609,193	14,421,302
Purchases of investments	(16,421,063)	(11,504,391)
Net cash provided by (used in) investing activities	(1,599,259)	1,585,309
Cash flows from financing activities:		
Bank overdraft	98,222	—
Proceeds from contributions restricted for:		
Investment in land, buildings, equipment, and library	4,332,715	787,408
Investment in endowment	520,015	—
Principal payments on notes payable	(389,055)	(87,360)
Payments on capital lease obligations	—	(87,273)
Net cash provided by financing activities	4,561,897	612,775
Net increase (decrease) in cash and cash equivalents	(409,319)	238,382
Cash and cash equivalents at beginning of year	687,215	448,833
Cash and cash equivalents at end of year	\$ 277,896	687,215
Supplemental information:		
Interest paid	\$ 19,252	51,561

See accompanying notes to financial statements.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) *General*

National Tropical Botanical Garden (Garden) was chartered by the 88th Congress on August 19, 1964 under Public Law 88-449. Its purpose is to establish and operate, for the benefit of the people of the United States, a tropical botanical garden, together with such related facilities as are appropriate and necessary for encouraging and conducting research in basic and applied tropical botany. The majority of the Garden's operations are conducted in the state of Hawaii. The Garden also operates a botanical garden in the state of Florida. The Garden has no power to issue shares of stock or to pay dividends.

(b) *Financial Statement Presentation*

Net assets and revenues, gains, and other support, and expenditures are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Garden and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Garden and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Garden. The donors of these assets permit the Garden to use the income earned on related investments for general or specific purposes.

(c) *Cash Equivalents*

For purposes of the statements of cash flows, the Garden considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) *Merchandise Inventories*

Merchandise inventories consist of books and other botanically related items and are recorded at the lower of cost (first-in, first-out) or market.

(e) *Investments*

Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statements of activities.

Gains and losses on investments are reported in the accompanying statements of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(f) Land, Buildings, Equipment, and Library

Land, buildings, equipment, and library are capitalized at cost, if purchased, or at fair market value at the date of the donation. Assets contributed for which the fair value is not determinable at the date of donation are recorded as support if and when such values are determined.

The Garden reports gifts of land, buildings, equipment, and library as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Garden reports expirations of donor restrictions when the acquired long-lived assets are placed in service.

Depreciation of long-lived assets is calculated on the straight-line basis over estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	20
Furniture, fixtures, and equipment	8
Library	10

(g) Botanical Art Collection

Art objects are capitalized at cost, if purchased, or at fair value, if determinable, at the date of donation.

(h) Contributions

Contributions are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The 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 and bequests. Conditional contributions are recorded at their estimated fair value in the period the conditions are met or in the period received if there is only a remote likelihood that those conditions will not be met.

The Garden reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(i) Charitable Remainder Trusts

The Garden reports charitable remainder trust arrangements, where a donor establishes and funds a trust with specified distributions to be made to designated beneficiaries over the trust's term, as contributions in the period in which the trust is established. The assets held in the trust are recorded at fair value and the obligations to beneficiaries are recorded as liabilities at the present value of the estimated future payments to be distributed.

(j) Perpetual Trusts

The Garden is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as investment return and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

(k) Impairment of Long-lived Assets

The Garden accounts for long-lived assets under the provisions of Statement of Financial Accounting Standards No. 144 (Statement 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with Statement 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

(l) Use of Estimates

The preparation of the financial statements requires management of the Garden to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, and other support and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of merchandise inventories; land, buildings, equipment, and library; land held for investment; and liability under charitable remainder annuity trust agreements. Actual results could differ from those estimates.

(m) Reclassifications

Certain reclassifications were made to 2004 amounts to conform to 2005 presentations. Such reclassifications did not impact the previously reported change in net assets.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(2) Pledges Receivable

Pledges receivable consisted of the following at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Contributions to be received within one year	\$ 290,000	128,685
Contributions to be received in one to five years	1,310,531	60,000
	<u>1,600,531</u>	<u>188,685</u>
Less discount to present value (4.35% and 3.5%)	<u>(83,345)</u>	<u>(6,600)</u>
	<u>\$ 1,517,186</u>	<u>182,085</u>

In 2005, the Garden received a conditional promise of \$1,000,000 for its botanical research center. The receipt of the contribution is conditional on certain criteria. As the conditions for payment by the donor have not been met as of December 31, 2005, the amount is not included as pledges receivable.

(3) Investments

As of December 31, 2005 and 2004, investments are classified as short term and long term as follows:

	<u>2005</u>	<u>2004</u>
Short term:		
Unrestricted and temporarily restricted	\$ 1,915,385	92,263
Long term:		
Permanently restricted	<u>17,773,456</u>	<u>16,169,548</u>
Total investments	<u>\$ 19,688,841</u>	<u>16,261,811</u>

A summary of investments at December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 4,319,385	2,381,162
Mutual funds	1,430,820	2,283,619
Common stocks	12,979,930	10,402,077
Mortgage-backed securities	209,492	268,122
Corporate bonds	747,284	926,831
Convertible securities	<u>1,930</u>	<u>—</u>
	<u>\$ 19,688,841</u>	<u>16,261,811</u>

Fair market value of marketable securities is based on quoted market prices.

Investments with a carrying value of \$5,203,590 at December 31, 2005 are held as security on a letter of credit facility issued by a bank (see note 7).

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(4) Land, Buildings, Equipment, and Library

A summary of land, buildings, equipment, and library as of December 31, 2005 and 2004 is as follows:

	2005	2004
Kampong:		
Land	\$ 5,661,095	5,661,095
Buildings	879,500	879,500
Furniture, fixtures, and equipment	116,648	105,530
Total Kampong	6,657,243	6,646,125
Hawaii:		
Land and land improvements	12,326,793	11,450,817
Building and building improvements	5,996,784	4,421,335
Furniture, fixtures, and equipment	3,150,886	2,853,640
Library	272,394	260,894
Construction in progress	619,639	2,391,691
Total Hawaii	22,366,496	21,378,377
	29,023,739	28,024,502
Less accumulated depreciation	7,795,500	7,272,474
	\$ 21,228,239	20,752,028

(5) Notes Receivable

Notes receivable consists of six promissory notes which bear interest at 9.4% per annum with interest due monthly and principal due on December 1, 2016. The notes are due from a trust for which a trustee is also a member of the Garden's board of trustees.

(6) Leases

(a) As Lessee

In December 2003, the Garden entered into an operating lease for real property in Kalaheo, Kauai for staff housing. The lease provides for monthly rent of \$1,700 and expired in August 2005. Rent expense for this lease was \$13,600 and \$20,400 for 2005 and 2004, respectively.

(b) As Lessor

In 2002, the Garden entered into a lease agreement as lessor for real property located in Maui, Hawaii with a member of the board of trustees, as tenant. The lease provides for no rent payments to be received from the tenant and terminates on the earlier of July 2, 2007, one year after the death of the tenant, or under an early termination provision as defined in the lease agreement.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

In 2000, the Garden entered into an operating lease for real property located in Miami-Dade County, Florida. The lease provides for monthly rent of \$2,500 and expires on December 31, 2008. Rental income for this lease amounted to \$30,000 for 2005 and 2004. Future minimum rent receipts under the lease are \$30,000 for each year ending December 31, 2006, 2007, and 2008.

(7) Notes Payable

Notes payable at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Mortgage note payable to a member of the board of trustees, noninterest-bearing until termination of the lease agreement (see note 6), at which time interest accrues at 6% per annum, due one year after termination of the lease, secured by real property in Maui, Hawaii and a letter of credit facility with a bank for \$1,800,000 (secured by certain marketable securities) (see note 3)	\$ 1,700,000	1,700,000
Mortgage note payable, 9% per annum, monthly principal and interest payments of \$2,802, due June 2011, secured by a parcel of land in Florida	145,465	165,035
9% mortgage note payable, paid in full in 2005	—	72,267
7% mortgage note payable, paid in full in 2005	—	297,218
	\$ 1,845,465	2,234,520

Annual maturities of the notes payable are as follows:

Year ending December 31:	
2006	\$ 21,406
2007	23,414
2008	1,725,610
2009	28,013
2010	30,640
Thereafter	16,382
	\$ 1,845,465

At December 31, 2005, the Garden had a \$500,000 line of credit facility with a bank for working capital. The agreement provides for interest at 0.25% over the bank's prime lending rate per annum and expires on June 1, 2006. Drawings on the line of credit are secured by certain assets of the Garden. There were no borrowings under the line of credit facility in 2005 and 2004.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(8) Contributions

(a) *Waterhouse Trust*

During 2005 and 2004, the Garden, as an income beneficiary of the Waterhouse Trust which was funded in 1985 by approximately \$5,300,000 of marketable securities and a partial interest in land from the Waterhouse estate, received distributions from the trust amounting to \$495,608 and \$455,517, respectively, which are recorded as unrestricted contributions in the accompanying statements of activities. Distributions from the trust continue until the death of the last of the grantor's nieces and nephews, at which time certain revisions will be made relating to distributions to income beneficiaries. As the financial impact of such revisions cannot be determined at this time, the present value of the estimated future cash receipts from the trust's assets has not been recorded in the financial statements.

(b) *Allerton Trusts*

The Garden has a beneficial interest in two perpetual trusts that were created by Mr. John Wyatt Gregg Allerton in 1969 and 1974. In 2005 and 2004, the Garden received distributions from the trusts amounting to \$166,284 and \$138,491, respectively, which are recorded as unrestricted contributions in the accompanying statements of activities. Distributions from the trusts, which continue in perpetuity, are to be used by the Garden for the promotion and advancement of botanical research and education on the island of Kauai.

(c) *The Kampong*

In 1984, the Kampong Fund (Fund), a state of Washington corporation, was organized to manage and financially support the Kampong estate during the lifetime of Mrs. Edward Sweeney. With the passing of Mrs. Sweeney, the Fund was liquidated and dissolved. Assets with a fair value of \$3,174,234 were transferred to and became the property of the Garden to be used for the maintenance and upkeep of the Kampong estate. The provisions of the asset transfer require that should the Garden sell the Kampong estate, the proceeds from the sale and any remaining assets be held in perpetuity with investment income used to advance the study of botanical science in the mainland United States.

(d) *Loy McCandless Marks Botanical Library*

On August 1, 1998, the botanical library of the Loy McCandless Marks Revocable Living Trust was distributed to the Garden. The terms of the distribution require that, among other items, the Garden repair and maintain the library assets and that the library assets be housed in the Garden's library at its headquarters in Lawai, Kauai. Further, the terms of the distribution stipulate that the Garden's library be reconfigured for various upgrades to ensure preservation of the library assets and that sales or exchanges of the library assets are prohibited, except under unusual circumstances. The library assets were appraised by a third party at a collective value of approximately \$8,000,000.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(e) *Eleanor Evans Crum Trust*

In March 2001, the Garden learned it was named as beneficiary of the Eleanor Evans Crum Trust. Another charitable organization and the two surviving nieces of Eleanor Evans Crum were also named as beneficiaries. The trust did not meet certain requirements for exemption from federal estate tax, and accordingly, a petition was filed in the respective court to divide the trust into four separate trusts, each with an equal share of the residual assets. In July 2002, the court entered a final order approving the division of the residual assets into four trusts, with each of the beneficiaries as being named beneficiary of one of the four separate trusts. Before and during the process of restructuring, the net income of the trust was payable in equal annual installments to the named beneficiaries. During 2005 and 2004, the Garden received distributions from the trust of \$122,437 and \$107,342, respectively, which are recorded as unrestricted contributions in the accompanying statements of activities. Distributions from the trusts continue until the death of the last of the two individual beneficiaries, at which time each trust will terminate and the balance of the remaining residual assets will be distributed to the Garden and the named charitable organization. As the financial information relating to the trust and the balance of the remaining residual assets cannot be determined at this time, the present value of the estimated future cash receipts from the trust assets has not been recorded in the financial statements.

(9) **Federal Income Taxes**

The Garden is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(10) **Pension Plan**

The Garden has a defined contribution retirement plan which is contributory and available to all qualified employees. Benefits are funded through life insurance annuity contracts. Pension expense for the years ended December 31, 2005 and 2004 totaled \$203,446 and \$301,801, respectively.

(11) **Allerton Gardens**

In 1991, the Garden entered into a management agreement with the trustee of the Allerton Gardens Trust (Trust) which requires the Garden to operate and maintain Allerton Gardens in accordance with written plans established by the Garden and Allerton Gardens Trust's trustee (Trustee). The initial plan included the repair and restoration, installation of new plantings, and construction of improvements to Allerton Gardens.

Effective January 2005, the original management agreement was amended wherein the Garden is obligated to pay \$1,500 monthly to the Trustee with an annual management fee to be paid to the Garden of \$215,000. Further, the Trust reimburses the Garden for all reasonable costs and expenses to operate Allerton Gardens. These costs include payments to contractors and suppliers; charges for utility services; premiums for insurance policies; maintenance; repair and operating costs; costs of improvements; costs of materials; equipment, supplies, and tools; costs of plantings; travel expenses; professional expenses approved by the Trustee; and the salaries and fringe benefits of Garden employees assigned full time to carry out the responsibilities under the management agreement. The amended agreement expires on December 31, 2028. The Garden received management fees of \$215,000 and \$200,000 in 2005 and 2004, respectively.

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2005 and 2004 are available for the following purposes:

	2005	2004
Gardens and preserves:		
Capital projects	\$ 5,502,733	2,360,966
Kampong	4,024,364	3,898,606
Conservation, science, and education	1,330,837	1,715,078
Limahuli	371,583	268,514
Kahanu	119,782	96,666
McBryde	89,779	10,092
Other	879,137	746,090
	\$ 12,318,215	9,096,012

Net assets in the amount of \$4,029,407 and \$4,362,610 in 2005 and 2004, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2005	2004
Garden and preserves:		
Conservation, science, and education	\$ 1,597,290	1,528,435
Kampong	950,462	501,369
Kahanu	210,566	183,306
McBryde	174,286	63,477
Limahuli	174,105	367,522
Other	580,387	612,082
	3,687,096	3,256,191
Capital projects	342,311	1,106,419
	\$ 4,029,407	4,362,610

NATIONAL TROPICAL BOTANICAL GARDEN

Notes to Financial Statements

December 31, 2005 and 2004

(13) Permanently Restricted Net Assets

At December 31, 2005 and 2004, permanently restricted net assets (e.g., endowment funds) consist of the following:

	2005	2004
Loy McCandless Marks Botanical Library	\$ 8,000,000	8,000,000
Any activities of the Garden	5,544,283	5,568,827
Land – Limahuli Garden	1,335,000	1,335,000
Restricted for:		
McBryde operations	6,087,009	5,171,526
Kampong operations	3,194,234	3,194,234
Research personnel	2,815,078	2,200,924
Education and memorials	2,104,919	2,104,919
Landscaping personnel	603,280	576,145
Limahuli garden operations	600,000	600,000
Botanical research center	20,000	—
	\$ 30,303,803	28,751,575

(14) Commitment

As of December 31, 2005, the Garden has an outstanding commitment of approximately \$466,000 under a contract for architectural services for its botanical research center.

NATIONAL TROPICAL BOTANICAL GARDEN

Expenditures

Year ended December 31, 2005

	Gardens and preserves					
	Total	McBryde	Kampong	Allerton	Limahuli	Kahanu
Salaries and related employee costs	\$ 4,728,698	688,616	288,052	482,871	339,257	254,759
Contributions	590,654	—	—	—	—	—
Depreciation	552,676	126,299	43,943	—	38,046	29,438
Professional fees	456,260	—	—	41,808	9,990	3,854
Repair maintenance – property and equipment	298,577	156,027	57,937	25,929	11,298	8,590
Meetings and travel	285,916	781	13,634	33	11,268	4,134
Contract labor	225,345	47,924	36,395	65,548	647	950
Telephone and utilities	224,915	110,121	31,051	17,000	5,292	6,418
Insurance	188,254	—	9,583	—	—	—
Events and conferences	172,713	—	104,162	—	55	130
Gas and oil	74,050	33,368	1,929	11,227	2,954	7,714
Real property taxes	68,726	—	57,634	113	250	6,620
Rent/lease property and equipment	67,878	4,892	21,123	6,432	—	300
Awards and honoraria	58,961	—	8,293	877	—	1,351
Horticultural supplies	57,108	25,418	9,798	3,452	3,529	619
Bank fees	51,763	6	3,300	—	2,505	603
Printing and reproduction	43,729	43	1,088	—	13,027	5,442
Computer software maintenance	42,616	—	3,639	—	2,566	117
Dues and subscriptions	40,370	25	283	—	65	101
Curriculum development	39,288	—	8,349	—	—	—
Office supplies	39,030	315	3,482	88	1,044	2,403
Other maintenance and supplies	33,168	28,747	—	138	1,000	55
Postage and delivery	32,353	337	1,899	103	893	636
Advertising and promotions	24,811	—	—	—	—	287
Licenses and permits	23,982	3,309	335	—	245	897
Helicopter rental	19,873	—	—	—	—	—
Interest expense	19,038	—	18,737	—	1	—
Minor equipment	18,752	2,790	—	437	—	405
Irrigation supplies	15,834	9,975	24	1,138	1,180	—
Maintenance supplies	15,753	5,283	2,555	48	3,122	3,131
Equipment	13,739	2,301	584	—	736	2,232
Library books and supplies	12,436	—	662	—	363	74
Restoration supplies and equipment	11,571	—	—	—	—	—
Furniture and fixtures	9,901	—	—	—	—	1,932
Network	8,268	166	535	—	—	—
Curation and herbarium supplies	7,868	—	2,829	—	—	5
Collecting supplies	6,402	—	—	—	—	—
Page costs	6,385	—	—	—	—	—
Laboratory supplies	4,319	—	—	—	98	—
Shop supplies	3,784	—	—	—	—	—
Research supplies	3,643	—	—	—	248	—
Photo and processing supplies	3,359	—	969	—	—	50
Land and building improvements	3,168	306	—	—	2,724	60
Volunteer program	2,558	—	—	—	565	—
Mapping supplies and equipment	2,258	—	—	—	1,111	—
Programs and events	1,859	—	—	—	—	392
Donations	500	—	—	—	—	500
Director's research	452	—	—	—	452	—
Publications	417	—	—	—	—	—
Director's discretionary	240	—	—	—	—	240
Gardeners' classroom supplies	62	62	—	—	—	—
Use tax	25	—	—	—	—	—
Special tours and events	15	—	—	—	—	15
Miscellaneous	3,528	—	1,317	—	—	733
	\$ 8,617,848	1,247,111	734,121	657,242	454,531	345,187

NATIONAL TROPICAL BOTANICAL GARDEN

Expenditures

Year ended December 31, 2005

	Research and education			Administration and finance	Development
	Science and conservation	Visitor programs	Education		
Salaries and related employee costs	\$ 1,096,326	383,303	164,398	644,707	386,409
Contributions	590,654	—	—	—	—
Depreciation	74,514	102,794	14,713	122,929	—
Professional fees	98,567	—	—	254,061	47,980
Repair maintenance – property and equipment	718	21,682	367	16,022	7
Meetings and travel	102,230	1,991	40,345	73,498	38,002
Contract labor	57,331	7,629	1,311	4,922	2,688
Telephone and utilities	6,444	22,522	1,975	21,392	2,700
Insurance	16,046	2,928	3,010	156,687	—
Events and conferences	—	—	—	31,354	37,012
Gas and oil	3,199	12,695	233	642	89
Real property taxes	104	13	—	3,992	—
Rent/lease property and equipment	22,191	3,905	—	9,035	—
Awards and honoraria	1,877	—	46,563	—	—
Horticultural supplies	12,927	652	—	713	—
Bank fees	35	20,724	35	24,555	—
Printing and reproduction	1,544	13,242	257	2,286	6,800
Computer software maintenance	6,310	347	381	21,162	8,094
Dues and subscriptions	6,716	513	28	11,157	21,482
Curriculum development	—	—	29,753	—	1,186
Office supplies	4,233	1,236	2,523	18,381	5,325
Other maintenance and supplies	440	1,155	110	1,499	24
Postage and delivery	5,424	72	295	20,784	1,910
Advertising and promotions	1,244	406	—	34	22,840
Licenses and permits	418	18,175	31	572	—
Helicopter rental	19,873	—	—	—	—
Interest expense	—	—	—	300	—
Minor equipment	7,162	814	1,727	2,986	2,431
Irrigation supplies	1,535	1,982	—	—	—
Maintenance supplies	843	660	20	91	—
Equipment	1,151	—	—	6,735	—
Library books and supplies	3,956	—	86	6,551	744
Restoration supplies and equipment	11,571	—	—	—	—
Furniture and fixtures	3,555	—	199	2,446	1,769
Network	251	901	—	6,412	3
Curation and herbarium supplies	5,034	—	—	—	—
Collecting supplies	6,402	—	—	—	—
Page costs	6,385	—	—	—	—
Laboratory supplies	4,221	—	—	—	—
Shop supplies	—	1,685	2,099	—	—
Research supplies	3,395	—	—	—	—
Photo and processing supplies	2,332	8	—	—	—
Land and building improvement	—	78	—	—	—
Volunteer program	38	204	1,026	725	—
Mapping supplies and equipment	1,147	—	—	—	—
Programs and events	75	1,357	35	—	—
Donations	—	—	—	—	—
Director's research	—	—	—	—	—
Publications	—	—	—	254	163
Director's discretionary	—	—	—	—	—
Gardeners' classroom supplies	—	—	—	—	—
Use tax	—	—	—	25	—
Special tours and events	—	—	—	—	—
Miscellaneous	47	—	—	1,431	—
	<u>\$ 2,188,465</u>	<u>623,673</u>	<u>311,520</u>	<u>1,468,340</u>	<u>587,658</u>

See accompanying independent auditors' report.

NATIONAL TROPICAL BOTANICAL GARDEN

Changes in Temporarily Restricted Net Assets

Year ended December 31, 2005

	Balance at December 31, 2004	Contributions	Income from investments and net appreciation	Total	Net assets released from restrictions	Balance at December 31, 2005
Capital Projects:						
Library/Herbarium	\$ 1,463,277	3,144,307	247,095	4,854,679	248,957	4,605,722
Land Acquisition Fund	570,721	15,000	—	585,721	—	585,721
Kahanu Fuel Cell System	103,250	—	—	103,250	253	102,997
Kampong Conference Facility	76,954	—	—	76,954	19,429	57,525
Intern Housing	—	50,000	—	50,000	—	50,000
Plant Site	39,876	—	—	39,876	—	39,876
Kahanu Land Acquisition	27,901	—	—	27,901	1,892	26,009
Lawai Valley Water Resource	26,606	—	—	26,606	10,050	16,556
Scarborough House	16,441	—	—	16,441	3,508	12,933
Kampong Facility Improvements	25,000	6,000	—	31,000	25,606	5,394
Nursery Center	273	17,000	—	17,273	17,273	—
Capital Fund	—	—	4,581	4,581	4,581	—
Crum Cottage Repairs	10,000	95	—	10,095	10,095	—
Visitor Center Interpretation	667	—	—	667	667	—
Total Capital Projects	2,360,966	3,232,402	251,676	5,845,044	342,311	5,502,733
Kampong Garden:						
Kampong Estate	3,778,986	—	—	3,778,986	—	3,778,986
Kampong Kenan Science Lab	—	150,000	—	150,000	52,868	97,132
Kampong Operations	—	182,686	—	182,686	151,588	31,098
Kampong Rainwater Collection Project	3,272	30,700	—	33,972	5,946	28,026
Kampong Database Project	37,573	—	—	37,573	10,522	27,051
Kampong Anonymous/Library/Oak Foundation	25,225	5,500	—	30,725	7,086	23,639
Kampong Hurricane Recovery Gifts	—	82,805	—	82,805	61,233	21,572
Kampong Bali Hai	3,550	79,310	—	82,860	74,010	8,850
Kampong Education Summit	25,000	—	—	25,000	19,248	5,752
Kampong Electric/Internet Upgrade	—	25,000	—	25,000	22,742	2,258
Kampong David Fairchild Medal	25,000	—	6,097	31,097	31,097	—
Kampong Sweeney Endowment	—	—	131,622	131,622	131,622	—
Kampong Hissar Mortgage Payoff	—	370,000	—	370,000	370,000	—
Kampong Agua Fund CFCC	—	12,500	—	12,500	12,500	—
Total Kampong Garden	3,898,606	938,501	137,719	4,974,826	950,462	4,024,364

NATIONAL TROPICAL BOTANICAL GARDEN

Changes in Temporarily Restricted Net Assets

Year ended December 31, 2005

	Balance at December 31, 2004	Contributions	Income from investments and net appreciation	Total	Net assets released from restrictions	Balance at December 31, 2005
Conservation, Science, and Education:						
Internship Program	\$ 274,365	1,350	107,281	382,996	77,697	305,299
McBryde Chair (HTCO #3)	191,505	—	98,812	290,317	73,010	217,307
Kahanu Breadfruit Collection/Breadfruit Institute	194,723	232,125	—	426,848	249,531	177,317
Conservation Program	151,768	25,100	—	176,868	3,493	173,375
Strong Foundation Education Grant	—	150,000	—	150,000	41,909	108,091
Flora of the Marquesas Project	118,466	—	—	118,466	53,316	65,150
Genetic Safety Net	99,132	90,000	—	189,132	125,300	63,832
Horticultural Internship	54,474	—	—	54,474	—	54,474
Publications	44,090	—	—	44,090	4,271	39,819
Conservation Lennox Grant	40,000	30,000	—	70,000	40,000	30,000
Physicians Course	29,779	25,000	—	54,779	31,219	23,560
Conservation Projects	51,938	9,000	—	60,938	39,635	21,303
NTBG Website	9,063	13,850	—	22,913	10,618	12,295
Journalism Course	10,000	11,000	—	21,000	10,000	11,000
Horticulture Summit	—	10,000	—	10,000	—	10,000
College Professors Course	65,367	30	—	65,397	56,193	9,204
Microscopes – Ebn Edu Program – Wilcox Foundation	—	5,336	—	5,336	—	5,336
Fellows Project – Herbarium Amboense Translation	5,522	37,500	—	43,022	41,752	1,270
Volunteer Facility at VC Garden	350	500	—	850	—	850
Na Lima Kokua	807	—	—	807	—	807
Restoration Biologist	36,099	—	—	36,099	35,551	548
Plant Medicine	329,440	261,216	—	590,656	590,656	—
B. Evans Chair (HTCO #1)	—	—	42,515	42,515	42,515	—
K-12 Science Teachers Course	8,090	13,104	—	21,194	21,194	—
Guggenheim Grant for Dr. Burney	—	18,500	—	18,500	18,500	—
Research Botanist (HTCO #2)	—	—	13,251	13,251	13,251	—
Seed Atlas-Science	—	6,550	—	6,550	6,550	—
Ethnobotany Courses	—	5,700	—	5,700	5,700	—
Student Awards	—	—	1,616	1,616	1,616	—
Public Lectures	100	—	1,465	1,565	1,565	—
Jr. Restoration Team-Education	—	1,000	—	1,000	1,000	—
Chandler Education Program	—	—	674	674	674	—
Horticulture Training Program	—	—	574	574	574	—
Total Conservation, Science, and Education	1,715,078	946,861	266,188	2,928,127	1,597,290	1,330,837

NATIONAL TROPICAL BOTANICAL GARDEN

Changes in Temporarily Restricted Net Assets

Year ended December 31, 2005

	Balance at December 31, 2004	Contributions	Income from investments and net appreciation	Total	Net assets released from restrictions	Balance at December 31, 2005
Limahuli Garden and Preserve:						
Limahuli Operations	\$ 104,383	99,574	56,400	260,357	85,895	174,462
Limahuli Lannon Mapping	84,796	100,000	—	184,796	68,294	116,502
Limahuli Ahupuaa Program	30,000	15,000	—	45,000	12,528	32,472
Limahuli Capital Improvements	29,202	—	—	29,202	6,808	22,394
Limahuli Land Acquisition Fund	20,133	—	—	20,133	—	20,133
Limahuli Irrigation Piping (SFP)	—	5,000	—	5,000	—	5,000
NWF Fellowship Grant – K. Winter	—	1,200	—	1,200	580	620
Total Limahuli Garden and Preserve	268,514	220,774	56,400	545,688	174,105	371,583
Kahanu Garden:						
Kahanu Piilanihale Heiau	21,930	31,250	—	53,180	3,968	49,212
Kahanu Giest Grant	—	100,000	—	100,000	58,374	41,626
Kahanu Road Improvements	42,441	—	—	42,441	27,945	14,496
Kahanu Capital Improvement	23,642	—	—	23,642	17,019	6,623
Kahanu Visitor Center	5,000	—	—	5,000	—	5,000
Kahanu Equipment	2,830	2,000	—	4,830	2,828	2,002
Kahanu Hale	823	—	—	823	—	823
Kahanu Operations	—	100,432	—	100,432	100,432	—
Total Kahanu Garden	96,666	233,682	—	330,348	210,566	119,782
McBryde Garden:						
Road Improvements-Lawai	—	50,000	—	50,000	—	50,000
McBryde Storm Damage	—	94,350	—	94,350	59,663	34,687
Garden Master Planning	5,092	—	—	5,092	—	5,092
McBryde Operations (HTCO #4)	—	—	18,897	18,897	18,897	—
Dillingham Memorial	—	—	21,795	21,795	21,795	—
Davis Memorial Repair	5,000	—	—	5,000	5,000	—
Gardeners (HTCO #2)	—	—	13,251	13,251	13,251	—
Dump Truck	—	55,680	—	55,680	55,680	—
Total McBryde Garden	10,092	200,030	53,943	264,065	174,286	89,779

NATIONAL TROPICAL BOTANICAL GARDEN

Changes in Temporarily Restricted Net Assets

Year ended December 31, 2005

	Balance at December 31, 2004	Contributions	Income from investments and net appreciation	Total	Net assets released from restrictions	Balance at December 31, 2005
Other:						
Sundry TRF Contributions	\$ 623,768	551,000	—	1,174,768	540,567	634,201
Tour Vehicles	49,451	70,034	—	119,485	25,020	94,465
Charitable Remainder Annuity Trust	67,871	—	—	67,871	—	67,871
McBryde Restrooms	—	60,000	—	60,000	—	60,000
Interpretive Sinage in McBryde Garden	—	15,100	—	15,100	—	15,100
K Knopp Trail	—	5,000	—	5,000	—	5,000
Wiseman Oral History of NTBG	—	10,000	—	10,000	7,500	2,500
Lettunich Trustee History Project	5,000	—	—	5,000	5,000	—
Elizabeth M. Elder Memorial	—	2,300	—	2,300	2,300	—
Total Other	<u>746,090</u>	<u>713,434</u>	<u>—</u>	<u>1,459,524</u>	<u>580,387</u>	<u>879,137</u>
	<u>\$ 9,096,012</u>	<u>6,485,684</u>	<u>765,926</u>	<u>16,347,622</u>	<u>4,029,407</u>	<u>12,318,215</u>

See accompanying independent auditors' report.