



SANTA BARBARA BOTANIC GARDEN, INC.

FINANCIAL STATEMENTS

December 31, 2018



Independent Auditors' Report

To the Board of Trustees
Santa Barbara Botanic Garden, Inc.
Santa Barbara, California

We have audited the accompanying financial statements of Santa Barbara Botanic Garden (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Botanic Garden as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Botanic Garden's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statement in our report dated September 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

May 28, 2020
Los Olivos, California

SANTA BARBARA BOTANIC GARDEN
Statement of Financial Position
December 31, 2018
(with 2017 comparative totals)

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 135,240	\$ 136,124
Accounts and contracts receivable, net	131,888	55,435
Contributions receivable - current, net (note 4)	116,587	224,033
Inventory (note 5)	81,464	82,548
Prepaid expenses and other assets	116,134	106,086
Total Current Assets	581,313	604,226
Non-Current Assets		
Long-term contributions receivable, net (note 4)	5,406	106,344
Investments (note 3)	13,419,941	14,635,931
Cash value of life insurance	172,962	165,108
Interest in charitable remainder trusts (note 6)	295,447	281,379
Interest in perpetual trusts (note 6)	1,114,403	1,239,936
Property and equipment, net (note 7)	24,265,409	24,701,098
Collections (note 8)	118,275	118,275
Total Assets	\$ 39,973,156	\$ 41,852,297
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 60,357	\$ 107,581
Accrued expenses (note 16)	507,372	555,497
Deferred revenue (note 9)	71,460	62,265
Current portion of long term debt (note 10)	2,543,711	2,543,633
Total Current Liabilities	3,182,900	3,268,976
Notes Payable (note 10)	834,856	828,466
Total Liabilities	4,017,756	4,097,442
Net Assets (notes 11 and 12)		
Without donor restrictions:		
Undesignated	25,819,288	26,492,287
Designated by the Board for endowment	2,999,715	3,691,689
With donor restrictions:		
Purpose and time restrictions - temporary in nature	1,459,904	2,803,853
Perpetual in nature	5,676,493	4,767,026
Total Net Assets	35,955,400	37,754,855
Total Liabilities and Net Assets	\$ 39,973,156	\$ 41,852,297

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN
Statement of Activities
For the Year Ended December 31, 2018
(with 2017 comparative totals)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
Support, Revenues and Gains				
Public Support				
Fundraising events - gross revenue	\$ 89,020	\$ -	\$ 89,020	\$ 106,195
Less costs of direct benefits to donors	<u>(64,261)</u>	<u>-</u>	<u>(64,261)</u>	<u>(81,644)</u>
Net revenues from fundraising events	24,759	-	24,759	24,551
Contributions	356,981	1,305,109	1,662,090	1,802,833
Grants	262,497	172,863	435,360	256,344
Change in value of trusts (note 6)	-	(111,465)	(111,465)	78,916
Trust income				
In-kind contributions	<u>36,125</u>	<u>-</u>	<u>36,125</u>	<u>53,187</u>
Total Public Support	<u>680,362</u>	<u>1,366,507</u>	<u>2,046,869</u>	<u>2,215,831</u>
Other Revenues and Gains				
Shop and plant sales	429,853	-	429,853	405,724
Less cost of goods sold	<u>(239,379)</u>	<u>-</u>	<u>(239,379)</u>	<u>(205,762)</u>
Gross Profit	190,474	-	190,474	199,962
Admissions	507,094	-	507,094	532,362
Contracts	584,296	-	584,296	301,241
Education program fees	58,077	-	58,077	67,543
Investment income	(370,130)	(628,845)	(998,975)	1,383,256
Gain sale of assets	-	-	-	707,978
Memberships (note 9)	248,593	-	248,593	291,804
Miscellaneous revenue	44,504	-	44,504	403
Trust income	26,660	-	26,660	208,296
Residential rental income	<u>110,179</u>	<u>-</u>	<u>110,179</u>	<u>128,458</u>
Total Other Revenues and Gains	<u>1,399,747</u>	<u>(628,845)</u>	<u>770,902</u>	<u>3,821,303</u>
Total Support, Revenue and Gains	<u>2,080,109</u>	<u>737,662</u>	<u>2,817,771</u>	<u>6,037,134</u>
Net assets released from restrictions	<u>1,337,252</u>	<u>(1,337,252)</u>	<u>-</u>	<u>-</u>
Expenses				
Program Expenses:				
Education	457,645	-	457,645	489,034
Living Collections	1,702,173	-	1,702,173	1,079,669
Research	792,910	-	792,910	984,594
Garden Shop	241,671	-	241,671	315,362
Total Program Services	<u>3,194,398</u>	<u>-</u>	<u>3,194,398</u>	<u>2,868,659</u>
Supporting Services:				
Management and general	898,860	-	898,860	629,918
Fundraising	523,967	-	523,967	440,808
Total Supporting Services	<u>1,422,828</u>	<u>-</u>	<u>1,422,828</u>	<u>1,070,726</u>
Total Expenses	<u>4,617,226</u>	<u>-</u>	<u>4,617,226</u>	<u>3,939,385</u>
Change in net assets	(1,199,865)	(599,590)	(1,799,455)	2,097,749
Net assets, beginning of year	30,018,868	7,735,987	37,754,855	35,491,998
Restatement (note 17)	-	-	-	165,108
Net assets, ending of year	<u>\$28,819,003</u>	<u>\$ 7,136,397</u>	<u>\$35,955,400</u>	<u>\$ 37,754,855</u>

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN
Statement of Cash Flows
For the Year Ended December 31, 2018
(with 2017 comparative totals)

	2018 Total	2017 Total
Cash Flows Provided by (Used For) Operating Activities:		
Change in net assets	\$ (1,799,455)	\$ 2,097,749
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	643,122	623,977
Realized and unrealized loss/(gain) on investments	1,274,434	(1,166,776)
(Gain) on sale of fixed assets	-	(707,978)
(Increase) in value of interest in charitable remainder trusts	(14,068)	(13,399)
(Increase) in cash value of life insurance policies	(7,854)	-
(Increase)/Decrease in value of interest in perpetual trust	125,533	(65,517)
(Increase) in accounts and contracts receivable	(76,453)	(51,418)
Decrease in pledges receivable	208,384	244,309
(Increase) in prepaid expenses and other assets	(10,048)	(33,196)
(Increase)/Decrease in inventory	1,084	(8,253)
Increase/(Decrease) in accounts payable	(47,224)	67,059
(Decrease) in accrued expenses	(48,125)	(164,907)
Increase/(Decrease) in deferred revenue	9,195	(21,379)
Net cash provided by (used for) operating activities	<u>258,525</u>	<u>800,271</u>
Cash Flows Provided by (Used For) Investing Activities:		
Purchase of fixed assets and construction in process	(207,433)	(1,009,000)
Purchase of investments	(2,510,989)	(6,932,982)
Proceeds from sale of fixed assets	-	5,000,000
Proceeds from sale of investments	<u>2,452,545</u>	<u>1,764,661</u>
Net cash provided by (used for) investing activities	<u>(265,877)</u>	<u>(1,177,321)</u>
Cash Flows Provided by (Used For) Financing Activities:		
Payments on long-term debt	<u>6,468</u>	<u>(17,716)</u>
Net cash provided by (used for) financing activities	<u>6,468</u>	<u>(17,716)</u>
Net increase (decrease) in cash and cash equivalents	(884)	(394,766)
Cash and cash equivalents at Beginning of Year	<u>136,124</u>	<u>530,890</u>
Cash and cash equivalents at Ending of Year	<u><u>\$ 135,240</u></u>	<u><u>\$ 136,124</u></u>
<u>Supplemental Cash Flow Information:</u>		
Interest paid during the year	<u><u>\$ 133,134</u></u>	<u><u>\$ 88,146</u></u>

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTAINC GARDEN
Statement of Functional Expenses
For the Year Ended December 31, 2018
(with 2017 comparative totals)

	Program Expense					Supporting Services		2018 Totals	2017 Totals
	Education	Living Collections	Conservation and Research	Garden Shop	Total Program	Mgmt. & General	Fundraising		
Salaries and wages	\$ 208,153	\$ 650,565	\$ 414,870	\$ 171,108	\$ 1,444,696	\$ 361,061	\$ 311,999	\$ 2,117,755	\$ 1,703,206
Payroll taxes	13,636	63,215	33,381	15,423	125,655	19,276	26,039	170,970	154,927
Pension expense	3,985	20,188	13,026	4,495	41,694	10,407	8,454	60,556	61,022
Employee benefits	16,695	130,193	32,806	6,892	186,586	41,071	43,715	271,371	274,368
Subtotal	242,468	864,160	494,083	197,918	1,798,630	431,815	390,207	2,620,653	2,193,523
Accounting fees	-	-	-	-	-	20,160		20,160	16,139
Advertising and promotion	3,505	11,642	7,142	2,861	25,149	7,939	4,792	37,880	33,784
Bank fees	4,368	14,670	1,427	483	20,948	2,326	197	23,471	17,201
Classes, tours and events	12,733	1,263			13,995	1,453		15,449	48,866
Conferences and meetings	2,215	2,002	4,703	420	9,342	16,183	2,151	27,676	18,295
Contracted services	20,753	85,360	126,644		232,758	64,695	42,422	339,874	309,439
Equipment and supplies	3,443	55,006	43,317	585	102,351	51,507	5,876	159,735	154,752
Grounds and maintenance	27,811	111,693	1,958	663	142,124	3,192		145,316	108,946
Insurance	26,074	86,613	53,131	21,283	187,100	59,062	35,647	281,810	176,764
Mortgage interest		-			-	133,134		133,134	88,146
Professional memberships		-	2,275		2,275	10,036	2,605	14,916	11,134
Publications	745	-	39		784	661	37,909	39,354	41,299
Telephone	250	2,873	1,750	600	5,473	31,924	1,440	38,837	37,834
Travel	445	1,765	20,590	867	23,667	6,328	722	30,718	26,339
Utilities		45,124	-	-	45,124	-	-	45,124	32,947
Total Expenses Before Depreciation and Allowance for uncollectible Pledges Receivabl	344,809	1,282,172	757,060	225,680	2,609,720	840,417	523,967	3,974,104	3,315,408
Depreciation	112,835	420,001	35,850	15,991	584,678	58,444	-	643,122	623,977
Total Expenses, December 31, 2018	<u>\$ 457,645</u>	<u>\$ 1,702,173</u>	<u>\$ 792,910</u>	<u>\$ 241,671</u>	<u>\$ 3,194,398</u>	<u>\$ 898,860</u>	<u>\$ 523,967</u>	<u>\$ 4,617,226</u>	
Total Expenses, December 31, 2017	<u>\$ 489,034</u>	<u>\$ 1,079,669</u>	<u>\$ 984,594</u>	<u>\$ 315,362</u>	<u>\$ 2,868,659</u>	<u>\$ 629,918</u>	<u>\$ 440,808</u>		<u>\$ 3,939,385</u>

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2018

(1) Principal Activity and Significant Accounting Policies

Business Activity

The Santa Barbara Botanic Garden, Inc. (the Garden) is a non-profit organization incorporated in 1939 under the laws of the State of California. The Santa Barbara Botanic Garden fosters the conservation of California native plants through our gardens, research, and education, and serves as a role model for sustainable practice.

Programs

The Garden has the following program activities:

Education: The Educational Program supports the Garden's conservation mission by inspiring active stewardship of native plants and the environments that depend on them. We work to develop an environmentally literate and engaged public through on-site classes, lectures, travel, and docent-led public and school tours. The Garden itself serves as a large and inspiring classroom with diverse collections of native plants that attract a great variety of wildlife. Garden school tours increase the eco-literacy of children in ways that are interactive and relevant to their daily lives and interests. These popular tours are designed to align with the California Common Core State Standards, California Environmental Education Initiative, and Next Generation Science Standards. The Garden's Citizen Science Club and California Naturalists training program offer specialized education for volunteers, nature enthusiasts, and professionals.

Living Collections: The Horticulture Program designs, installs, and maintains the Garden's 78 acres of living native plant collections and historic landmarks. The Garden has several distinctive sections that highlight the breadth of species across California's diverse landscape. The newest garden displays offer updated inspiration for conserving water and using natives in home gardens; introduce deciduous natives in a shaded, canyon setting; showcase plants of the Channel Islands with a breadth-taking view of the islands themselves; engage children with a maze made of native Coyote Bush; and introduce visitors to California's rarest and most threatened species. The Horticulture team also manages two native plant nurseries, one open to the public for plant purchases and the other for propagation.

Conservation and Research: The Conservation and Research Program tackles today's complex conservation challenges at all levels: from genes, to individuals, populations, communities, and ecosystems. Garden scientists work collaboratively to identify and implement strategies for protecting and restoring California's diverse botanic ecosystems. The Conservation and Research team works to safeguard endangered plant species, produce essential regional plant inventories and research, and secure collections of seeds as well as living plants for study and potential recovery in the event of disaster. They examine the beneficial role native plants play in supporting pollination and pest control

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Notes to Financial Statements
December 31, 2018

for healthier and more productive food crops and wildlands. The team also manages a seed bank and a herbarium. By using cryogenics, they maintain a comprehensive collection of genetic material from California's most imperiled plants.

Garden Shop: The Garden Shop supports garden education, community programs, exhibits and displays by selling books, maps, garden publications, educational tools and related products, thereby generating appreciation and knowledge of the plant and natural sciences.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Comparative Financial Information

The accompanying 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 (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

The Garden considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for research activities. The Garden determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2018 and 2017 all accounts receivables were considered fully collectible and thus no allowance for uncollectable accounts receivable are reported.

Pledges Receivable

The Garden records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating

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Notes to Financial Statements
December 31, 2018

risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Garden determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2018 and 2017, the allowance was \$1,223 and \$3,382, respectively

Inventory

Inventory consists of gift shop items as well as nursery items held for sale. Inventory is valued at the lower of cost or market, using the average cost method.

Investments and Investment Income

The Garden records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Beneficial Interests in Charitable Trusts Held by Others

The Garden has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Garden has neither possession nor control over the assets of the trusts. At the date the Garden receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed

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Notes to Financial Statements
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restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

Beneficial Interests in Perpetual Trusts

The Garden has been named as an irrevocable beneficiary of perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to us; however, the Garden will never receive the assets of the trusts. At the date the Garden receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statements of activities, and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

Property, Equipment and Depreciation

The Garden records property and equipment additions over \$3,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Garden reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Garden have determined that no long-lived assets were impaired at December 31, 2018.

Collections

The Garden has elected not to capitalize donated botanical collections nor does the Garden recognize these contributions as revenues or gains. Generally accepted accounting principles provide that such donations need not be recognized if: 1) they are added to collections that

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2018

are held for public exhibition, education, or research in furtherance of public service rather than financial gain; 2) are protected, kept unencumbered, cared for and preserved; and 3) are subject to a policy that requires the proceeds from the sales of collection items to be used to acquire other items for collections.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Garden reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Garden records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2018 and 2017, respectively.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$37,880 and \$33,784 during the years ended December 31, 2018 and 2017, respectively.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Garden is a non-profit corporation organized under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code. The Garden would be subject to income tax only on unrelated business taxable net income for the year ended December 31, 2018. At December 31, 2018 or for any years for which the statute is open, the Garden is not aware of any uncertain tax positions. The tax years ending 2015, 2016 and 2017 are still open to audit for federal and state purposes. Contributions to the Garden are tax deductible to donors under Section 170 of the IRC. The Garden is not considered a private foundation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts

SANTA BARBARA BOTANIC GARDEN, INC.
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of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

The Garden manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Garden has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from donors, governmental agencies, and foundations supportive of the Garden's mission. Investments are made by diversified investment managers whose performance is monitored by the Garden and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

(2) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

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Notes to Financial Statements
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Cash and cash equivalents	\$ 135,240
Accounts and contracts receivable, net	131,888
Contributions receivable – current	116,587
Investments	13,419,941
Distributions from assets held under split-interest agreements	26,660
Endowment spending-rate distributions and appropriates	<u>652,618</u>
	14,482,934
Less:	
Donor purpose restrictions – non-endowment	(537,168)
Assets held in endowment	<u>(7,693,610)</u>
Total	<u>\$ 6,252,156</u>

The Garden's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$2,999,715 is subject to an annual spending rate of 4 percent as described in Notes 11 and 12. Although the Garden does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

NOTE: $2,999,715 \times 4\% = 119,989$

652,618

-119,989

=532,629 from other investments

(3) Fair Value Measurements and Disclosures

The Garden reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities the Garden can access at the measurement date.

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Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Garden develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Garden's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of the Garden's investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. The Garden's investments in corporate bonds, municipal bonds and U.S. government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2. The fair values of beneficial interests in charitable and perpetual trusts are determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements.

The Garden uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2018:

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	Total	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
<u>Assets</u>					
Investments:					
Market Funds					
(as cost)	\$ 316,585	\$ -	\$ -	\$ -	\$ -
Mutual Funds:					
Equities	4,601,269	4,601,269	-	-	-
Fixed					
income	2,613,677	2,613,677	-	-	-
Alternative	337,942	-	-	-	337,942
Real estate	205,350	-	-	-	205,350
Commodities	262,319	-	-	-	262,319
Common					
stock	3,433,094	3,433,094	-	-	-
Corporate					
bonds	849,318	-	849,318	-	-
Municipal					
bonds	699,710	-	699,710	-	-
U.S.					
Government					
Obligations	97,677	-	97,677	-	-
Other					
investments					
(as cost)	3,000	-	-	-	-
	<u>\$ 13,419,941</u>	<u>\$ 10,648,040</u>	<u>\$ 1,646,705</u>	<u>\$ -</u>	<u>\$ 805,611</u>
Interest in					
charitable					
remainder					
trusts	<u>\$ 295,447</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295,447</u>	<u>\$ -</u>
Interest in					
perpetual					
trusts	<u>\$ 1,114,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,403</u>	<u>\$ -</u>

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The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2018:

	<u>Beneficial Interest</u>	
	<u>Charitable Trusts</u>	<u>Perpetual Trusts</u>
Balance at December 31, 2017	\$ 281,379	\$ 1,239,936
Investment returns, net	<u>14,068</u>	<u>(125,533)</u>
Balance at December 31, 2018	<u>\$ 295,447</u>	<u>\$ 1,114,403</u>

(4) Contributions Receivable

The Garden expects to collect contributions receivable over the length of the pledges as follows:

	<u>2018</u>		<u>2017</u>
Less than one year	\$ 117,810		\$ 227,415
Less allowance for uncollectible pledges receivable	<u>(1,223)</u>	1.04%	<u>(3,382)</u> 1.49%
Short-term Pledges Receivable, Net	<u>\$ 116,587</u>		<u>\$ 224,033</u>
Two to five years	\$ 5,460		\$ 110,820
Less discount to present value	<u>(54)</u>		<u>(4,476)</u>
Long-term Pledges Receivable, Net	<u>\$ 5,406</u>		<u>\$ 106,344</u>

The Garden estimates the present value of long term pledges using a discount rate of 1%.

(5) Inventory

Inventory consists of the following amounts at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Garden Shop supplies	\$ 67,081	\$ 68,493
Nursery supplies	<u>14,383</u>	<u>14,055</u>
Total Inventory	<u>\$ 81,464</u>	<u>\$ 82,548</u>

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(6) Interest in Trusts

Charitable Remainder Trust

The Garden is the beneficiary of irrevocable charitable remainder trusts held by independent trustees. In accordance with generally accepted accounting principles, the Garden has reported the irrevocable beneficial interest as an asset in the accompanying statement of financial position. Under the terms of the agreements, the Garden has an unconditional right to receive all or a portion of specified cash flows from the agreements. The agreements are valued at fair value based upon expected future cash flows and discounted present value at a risk-adjusted rate. As of December 31, 2018 and 2017, the Garden applied a discount rate of 5 percent. The present value of the trusts as of December 31, 2018 and 2017 reported in the accompanying statements of financial position was \$295,447 and \$281,379, respectively.

The change in the value of these assets is recorded annually as an increase or decrease in net assets with donor restrictions in the statement of activities. For the years ended December 31, 2018 and 2017, the present value of the trusts increased by \$14,068 and \$13,399, respectively.

Perpetual Income Interest in Trust

The Garden holds a beneficial interest in the income of the Anna Blaksley Bliss Trust, the Preston and Sterling Morton Trust, and the Hugunin Trust, under legal instruments created by the donors. The Garden does not have possession or control of the trusts, which are held and administered by outside agents. The agents calculate and distribute income in accordance with each trust agreement. Since the Garden is the beneficiary of the income stream into perpetuity, these perpetual trusts' values are recorded as permanently restricted assets.

As of December 31, 2018, and 2017, the total estimated fair market value of the interests in perpetual trusts was \$1,114,403 and \$1,239,936, respectively. The change in the value of these trusts was recorded as an increase or decrease in net assets with donor restrictions in the Statement of Activities. For the years ended December 31, 2018 and 2017, the present value of the trusts decreased by \$125,533 and increased by \$65,517 respectively. The total distributions received from the trusts were \$26,660 and \$208,296 for the years ended December 31, 2018 and 2017, respectively.

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(7) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 6,403,458	\$ 6,403,458
Buildings & improvements	19,863,196	19,496,183
Machinery and equipment	424,149	442,940
Furniture and fixtures	<u>150,402</u>	<u>456,608</u>
Total cost	26,841,205	26,799,189
Less accumulated depreciation	(3,968,161)	(3,714,824)
Work in process	<u>1,392,365</u>	<u>1,616,733</u>
Net property and equipment	<u>\$ 24,265,409</u>	<u>\$ 24,701,098</u>

For the year ending December 31, 2018 and 2017, the Garden recognized depreciation expense of \$643,122 and \$623,977, respectively.

(8) Collections

The Garden has collections of botanical books, native plant artworks, herbarium specimens, and living collections. It safeguards the collection of the library in an air- conditioned space. The herbarium collection of preserved plant specimens is maintained in a secure, pest-free facility. The living collection of native plants is displayed on the 78 acres and is maintained by the horticulture staff. Additions to the herbarium and living collection are made in the normal course work by the staff and volunteers, whether during research projects, through exchange with other gardens, from gifts, or from occasional purchases. The Garden's recorded collections represent only a very small percentage of the estimated total value of the Garden's total artifacts. Artifacts are considered inexhaustible and, therefore, are not being depreciated due to their historical value. The Garden's artifacts are held for exhibition to the public, for educational purposes, or for research, with the intent of being protected, cared for, and preserved. There were no sales of collections during the year ended December 31, 2018 or December 31, 2017.

(9) Deferred Revenue

Deferred revenue consists of annual memberships sold on or before December 31, 2018 and with an expiration date subsequent to December 31, 2018. The amount of deferred revenue reported is based on the number of months remaining of membership benefits remaining at December 31, 2018.

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(10) Notes Payable

The Garden holds two notes payable and a line of credit.

The first note payable is a \$940,000 mortgage held by Montecito Bank & Trust entered into on January 17, 2012. The loan is secured by real estate held at 1120 Tunnel Road and carries an interest rate of 5% per annum. Commencing February 2012, the note required interest only payments of approximately \$3,900. Effective February 2016 the note requires monthly principal and interest payments of \$5,132. The note matures January 2022 at which time the remaining outstanding balance is due. The mortgage payable at December 31, 2018 is \$834,856.

The second note payable is a revolving-term note held by Northern Trust. The note is secured by investment securities held at Northern Trust. The note carries a variable interest rate which was 2.933% at December 31, 2019, and is calculated based on the overnight LIBOR-Base Rate plus a margin of 1.40%. Under the terms of the note agreement the total amount available to the Garden is \$2,550,000 and requires payment in full or renewal on or before December 2018. The balance of the note payable at December 31, 2018 is \$2,543,711. The Garden renewed the loan in 2019 with a new expiration date of December 2020. The Garden intends to renew the note payable annually. See note 18 of these financial statements for description of refinancing of this note.

The Garden has entered into a line of credit agreement with Montecito Bank & Trust. The line of credit provides a maximum principal balance of \$1,500,000 at an initial rate of 3.75%. The variable interest rate on the line of credit is .75% over the Wall Street Journal Prime Rate published in the Wall Street Journal variable with a floor of 2.5%. The line is secured by all deposits held at the bank. The line expires March 2023. At December 31, 2018 the Garden did not owe a balance on the line of credit.

The Garden is obligated to make the following principal payments on the mortgages:

2019	\$ 2,543,711
2020	16,047
2021	16,875
2022	17,637
2023	18,432
Thereafter	<u>765,865</u>
Total	<u>\$ 3,378,567</u>

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(11) Board Designated and Net Assets with Donor Restrictions

Board Designated Net Assets

Board designated net assets consist of the following amounts at December 31, 2018:

Quasi-endowment – education	\$ 447,920
Quasi-endowment – research and conservation	443,911
Quasi-endowment – horticulture	467,827
Quasi-endowment – general operations	<u>1,640,057</u>
 Total Board Designated Net Assets	 <u>\$ 2,999,715</u>

Donor Restricted Net Assets – Temporary in Nature

Net assets with donor restrictions that are temporary in nature are restricted for the following purposes or periods.

Non-Endowment	
Building fund	\$ 330,376
Research and conservation	60,043
Education	63,212
Horticulture	258,452
Other restrictions	155,461
Time restrictions	<u>460,555</u>
	1,328,099
 Endowment	
Research and conservations	34,722
Education	184,517
Horticulture	178,034
Underwater endowments	<u>(265,468)</u>
	<u>131,805</u>
 Total net assets with donor restrictions temporary In nature	 <u>\$ 1,459,904</u>

(12) Endowment

The Garden's endowment (the Endowment) consists of individual funds established by donors to provide annual funding for specific activities and general operations. The

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Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

The Garden's Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018, there were no such donor stipulations. As a result of this interpretation, the Garden retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The Garden considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the 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

Changes in Endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,691,689	\$ 4,575,747	\$ 8,267,436
Contributions	-	1,035,000	1,035,000
Appropriations in accordance with spending policy	(321,844)	(347,374)	(669,218)
Investment returns	(370,130)	(569,478)	(939,608)
Endowment net assets, end of year	<u>\$ 2,999,715</u>	<u>\$ 4,693,895</u>	<u>\$ 7,693,610</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the total amount of the gifts made to the endowment by

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the donor. The Garden has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Deficiencies of this nature that are reported with donor restrictions have an original gift value of \$2,573,502, a current fair value of \$2,308,034 and a deficiency of \$265,468 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations.

Investment and Spending Policies

The Garden has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for programs and operating supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

Without regard to the current year actual interest and dividends earned, the Board of Directors has authorized an annual spending policy of 4% of the prior 12 quarter rolling average endowment portfolio balance.

(13) Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

(14) Employee Benefits

The Garden maintains a 403(b)-tax sheltered annuity plan covering employees who meet certain minimum eligibility requirements. The plan is funded each payday (26 per year) based on a match of up to 3% of eligible employees' compensation. Employees must work two years with 1,000 hours of service each year to be eligible for the Garden's matching contributions to the plan. The Garden's contribution to employee retirement plans in 2018 and 2017 was \$60,558 and \$61,021, respectively.

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The Garden offers employee vacation which is accrued based on certain eligibility requirements and years of service. The balances payable as of December 31, 2018 and 2017 were \$187,219 and \$139,370, respectively.

The Garden accrues employee wages and benefits. The balances payable as of December 31, 2018 and 2017 were \$92,669 and \$84,560, respectively.

(15) Concentration of Risk

Credit Risk

The Garden maintains cash balances at two financial institutions. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage amount is \$250,000 per depositor and per bank institution for interest-bearing accounts. At times throughout the year the Garden maintains balances in excess of the FDIC insured amount.

Market Risk

The Garden holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Geographic Risk

The Garden's primary donor base and members are located in Santa Barbara County, California.

(16) Accrued Expenses - Jesusita Fire

In June 2009 the Santa Barbara area experienced a wildfire commonly known as the Jesusita Fire. The fire caused significant damage to the Garden's infrastructure. Damage included destruction of buildings, walking trails, irrigation systems, vehicles, maintenance tools and other exhibit related items. The Garden was insured for losses incurred by the fire and reported a gain in 2009 of \$3,200,979 on the involuntary conversion of assets to cash. In addition to the loss of assets, the Garden has incurred fire related cleanup costs. The Garden's management estimated additional fire-related noncapital costs and reported a liability (included in accrued expenses) in the accompanying financial statements of \$221,525 and \$312,109 as of December 31, 2018 and 2017, respectively. The Garden reviews the costs annually.

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(17) Prior Period Adjustment

During the year ended December 31, 2018 the Garden discovered they had been named the beneficiary of a life insurance policy. The policy had a cash value of \$165,108 at December 31, 2017. The Garden has adjusted net assets with donor restrictions for time at December 31, 2017 to reflect the Garden's interest in the cash value of the life insurance.

(18) Subsequent Events

Management has evaluated subsequent events through May 28, 2020, the date the financial statements were available to be issued. Management has determined with the exception of the items described below there are no subsequent events requiring disclosure or significantly impacting disclosure have occurred.

On December 23, 2019, the Garden renewed the note payable to Northern Trust described in note 10 of these financial statements. The terms of the revolving-term note remained the same as described in note 10 with a new maturity date of December 17, 2020.

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of March 20, 2020, the Garden closed access to the Garden and the Garden shop to all visitors and members. Garden employees began working remotely where possible and social distancing policies were implemented for any remaining on-site employees. The Garden cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Garden's financial position, changes in net assets, and cash flows in 2020.