

SANTA BARBARA BOTANIC GARDEN, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

SANTA BARBARA BOTANIC GARDEN, INC.

December 31, 2022

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Santa Barbara Botanic Garden, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Botanic Garden, Inc. as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Barbara Botanic Garden, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Barbara Botanic Garden, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Barbara Botanic Garden, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Barbara Botanic Garden, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2023, on our consideration of Santa Barbara Botanic Garden, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Barbara Botanic Garden, Inc.'s internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Santa Barbara Botanic Garden, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Botanic Garden, Inc.'s December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated May 18, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

September 7, 2023

SANTA BARBARA BOTANIC GARDEN, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2022
(With Comparative Totals for December 31, 2021)

	ASSETS		(Memo)	
	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 303,023	\$ -	\$ 303,023	\$ 859,986
Accounts and contracts receivable	430,666	-	430,666	510,616
Other receivables	220,498	-	220,498	220,498
Pledges and bequests receivable, current portion	-	430,410	430,410	275,305
Inventories	81,088	-	81,088	62,817
Prepaid expenses and deposits	<u>150,534</u>	<u>-</u>	<u>150,534</u>	<u>100,544</u>
 Total Current Assets	 <u>1,185,809</u>	 <u>430,410</u>	 <u>1,616,219</u>	 <u>2,029,766</u>
NON-CURRENT ASSETS				
Pledges receivable, net of current portion	-	179,457	179,457	317,062
Investments	7,456,717	7,863,719	15,320,436	18,416,985
Interest in perpetual trusts	-	1,175,581	1,175,581	1,404,483
Interest in charitable remainder trusts	-	358,957	358,957	342,126
Cash value of life insurance	209,322	-	209,322	247,040
Property and equipment, net	18,019,045	-	18,019,045	17,364,592
Design and entitlement costs	1,192,833	-	1,192,833	1,192,833
Collections	<u>118,275</u>	<u>-</u>	<u>118,275</u>	<u>118,275</u>
 Total Non-Current Assets	 <u>26,996,192</u>	 <u>9,577,714</u>	 <u>36,573,906</u>	 <u>39,403,396</u>
 TOTAL ASSETS	 <u>\$ 28,182,001</u>	 <u>\$ 10,008,124</u>	 <u>\$ 38,190,125</u>	 <u>\$ 41,433,162</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 145,453	\$ -	\$ 145,453	\$ 49,604
Accrued liabilities	569,600	-	569,600	285,493
Deferred revenue	266,324	-	266,324	282,388
Other liabilities	<u>3,436</u>	<u>-</u>	<u>3,436</u>	<u>2,289</u>
 Total Current Liabilities	 <u>984,813</u>	 <u>-</u>	 <u>984,813</u>	 <u>619,774</u>
NET ASSETS				
Without Donor Restrictions				
Undesignated	24,004,635	-	24,004,635	25,395,187
Designated by the Board for endowment	<u>3,192,553</u>	<u>-</u>	<u>3,192,553</u>	<u>3,911,430</u>
Total Without Donor Restrictions	27,197,188	-	27,197,188	29,306,617
 With Donor Restrictions	 <u>-</u>	 <u>10,008,124</u>	 <u>10,008,124</u>	 <u>11,506,771</u>
 Total Net Assets	 <u>27,197,188</u>	 <u>10,008,124</u>	 <u>37,205,312</u>	 <u>40,813,388</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 28,182,001</u>	 <u>\$ 10,008,124</u>	 <u>\$ 38,190,125</u>	 <u>\$ 41,433,162</u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA BOTANIC GARDEN, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	(Memo) 2021 Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions, bequests and grants	\$ 954,626	\$ 2,101,112	\$ 3,055,738	\$ 2,593,410
Government grant	-	-	-	602,526
Membership contributions	657,575	-	657,575	463,689
Admission fees	1,047,808	-	1,047,808	1,147,911
Contracts	1,439,409	-	1,439,409	968,120
Garden shop sales, net of costs	318,402	-	318,402	261,875
Investment income (loss)	(1,680,059)	(1,001,259)	(2,681,318)	2,417,350
Public programs	76,896	-	76,896	13,868
Change in value of trusts and life insurance	-	(249,789)	(249,789)	147,622
Other income	170,867	-	170,867	221,182
Special events (net of expenses of \$67,467 and \$0)	124,021	-	124,021	22,882
Net assets released from restrictions	<u>2,348,711</u>	<u>(2,348,711)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>5,458,256</u>	<u>(1,498,647)</u>	<u>3,959,609</u>	<u>8,860,435</u>
EXPENSES				
Program Expenses				
Education	457,886	-	457,886	362,207
Living collections	2,087,960	-	2,087,960	1,646,512
Conservation and research	2,619,699	-	2,619,699	1,997,231
Garden shop	<u>259,247</u>	<u>-</u>	<u>259,247</u>	<u>203,588</u>
Total Program Expenses	<u>5,424,792</u>	<u>-</u>	<u>5,424,792</u>	<u>4,209,538</u>
Supporting Services				
Management and general	1,400,317	-	1,400,317	1,095,386
Fundraising	<u>742,576</u>	<u>-</u>	<u>742,576</u>	<u>511,007</u>
Total Expenses	<u>7,567,685</u>	<u>-</u>	<u>7,567,685</u>	<u>5,815,931</u>
CHANGE IN NET ASSETS	(2,109,429)	(1,498,647)	(3,608,076)	3,044,504
NET ASSETS, BEGINNING OF YEAR	<u>29,306,617</u>	<u>11,506,771</u>	<u>40,813,388</u>	<u>37,768,884</u>
NET ASSETS, END OF YEAR	<u>\$ 27,197,188</u>	<u>\$ 10,008,124</u>	<u>\$ 37,205,312</u>	<u>\$ 40,813,388</u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA BOTANIC GARDEN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

EXPENSES	Program Services					Support Services		2022 Total	(Memo) 2021 Total
	Education	Living Collections	Conservation and Research	Garden Shop	Total Program	Management and General	Fundraising		
Salaries and wages	\$ 232,700	\$ 1,056,605	\$ 1,147,848	\$ 148,993	\$ 2,586,146	\$ 557,051	\$ 287,302	\$ 3,430,499	\$ 2,504,255
Payroll taxes and benefits	96,235	436,969	474,704	61,618	1,069,526	230,374	118,817	1,418,717	1,042,634
Total salaries and benefits	328,935	1,493,574	1,622,552	210,611	3,655,672	787,425	406,119	4,849,216	3,546,889
Advertising and promotion	5,180	2,685	6,464	656	14,985	12,340	95,657	122,982	30,247
Bank fees	470	48,866	3,729	11,447	64,512	10,453	8,408	83,373	66,198
Contracted services	23,640	42,830	278,323	1,674	346,467	268,008	131,116	745,591	621,620
Equipment and supplies	17,868	201,474	68,432	10,447	298,221	98,825	57,652	454,698	400,712
Facilities and maintenance	14,493	71,082	4,890	1,412	91,877	87,879	3,301	183,057	157,930
Insurance	22,828	103,653	112,604	14,616	253,701	15,699	4,071	273,471	256,048
Professional memberships	-	-	3,625	-	3,625	6,488	833	10,946	22,102
Publications	399	7,507	-	-	7,906	6,954	77,164	92,024	46,755
Travel and meetings	1,828	24,157	65,674	4,526	96,185	47,780	11,150	155,115	48,304
Depreciation	42,245	92,132	453,406	3,858	591,641	58,466	14,572	664,679	619,126
2022 TOTAL EXPENSES	\$ 457,886	\$ 2,087,960	\$ 2,619,699	\$ 259,247	\$ 5,424,792	\$ 1,400,317	\$ 810,043	\$ 7,635,152	
Less expenses included with revenues on the statement of activities									
Special events direct expenses	-	-	-	-	-	-	(67,467)	(67,467)	
2022 TOTAL EXPENSES	\$ 457,886	\$ 2,087,960	\$ 2,619,699	\$ 259,247	\$ 5,424,792	\$ 1,400,317	\$ 742,576	\$ 7,567,685	
2021 TOTAL EXPENSES (MEMO)	\$ 362,207	\$ 1,646,512	\$ 1,997,231	\$ 203,588	\$ 4,209,538	\$ 1,095,386	\$ 511,007		\$ 5,815,931

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA BOTANIC GARDEN, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

	<u>2022</u>	<u>(Memo)</u> <u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,608,076)	\$ 3,044,504
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	664,679	619,126
Long-term contributions	(2,000,000)	-
Gain on sale of property	(13,925)	(89,133)
Change in value of trusts and life insurance	249,789	(147,621)
Realized and unrealized loss (gain) on value of securities	2,937,273	(2,189,734)
(Increase) decrease in:		
Accounts and contracts receivable	79,950	(51,748)
Pledges and bequests receivable	(17,500)	(553,500)
Inventories	(18,271)	46,968
Prepaid expenses and deposits	(49,990)	(317)
Increase (decrease) in:		
Accounts payable	95,849	(107,334)
Accrued liabilities	284,107	48,302
Deferred revenue and other liabilities	(14,917)	124,300
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,411,032)</u>	<u>743,813</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,367,479)	(183,755)
Net proceeds from disposition of property	62,272	2,374,461
Purchase of securities	(2,256,376)	(4,691,338)
Proceeds from sale of securities	2,415,652	4,479,643
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,145,931)</u>	<u>1,979,011</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term contributions	2,000,000	-
Payments on long-term debt	-	(2,530,447)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>2,000,000</u>	<u>(2,530,447)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(556,963)	192,377
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>859,986</u>	<u>667,609</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 303,023</u>	<u>\$ 859,986</u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 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 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 for healthier and more productive food crops and wildlands. The team also manages a seed bank and an 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.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The financial statements of the Garden have been prepared on the accrual basis of accounting following accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

The Garden reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include pledges and bequests receivable and planned gifts. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions”.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of 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. Cash and highly liquid financial instruments held in investment accounts 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, 2022, all accounts receivables were considered fully collectible and thus no allowance for uncollectable accounts receivable are reported.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and Credit Policies (continued)

Other receivables consist of amounts receivable for employee retention credits and are considered fully collectible.

Pledges and Bequests 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 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, 2022, all pledges and bequests receivable are considered fully collectible.

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 investment expenses.

Property, Equipment and Depreciation

The Garden records property and equipment additions over \$5,000 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, 2022.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the Garden; 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.

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.

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 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. The Garden also has non botanical collections of \$118,275, as of December 31, 2022, which has been capitalized in accordance with generally accepted accounting principles.

Leases

The Garden has adopted FASB ASC 842, Leases, effective in these financial statements. As of January 1, 2022, and for the year ended December 31, 2022, the Garden had no noncancellable operating or capital leases.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Further, the Garden elected a short-term lease exception policy, permitting the Garden to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets.

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.

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. The Garden received no contributions of such goods or services during the year ended December 31, 2022.

Income Taxes

The Garden is a nonprofit corporation exempt from Federal income taxes under Internal Revenue Code section 501 (c) (3) and State income taxes under Revenue and Taxation Code Section 23701 (d), therefore no amounts for income taxes are reflected in the accompanying financial statements. The Garden is not a private foundation for income tax purposes. The Garden is not aware of any transactions that would affect its tax-exempt status.

The Garden evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2022, the Garden had no uncertain tax positions requiring accrual.

The Garden files tax returns in California and U.S. federal jurisdictions. The Garden is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2019 and 2018, respectively.

Reclassification

Certain reclassifications have been made to the December 31, 2021, financial statements to conform to the presentation used in the December 31, 2022, financial statements.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Direct expenses are charged to the appropriate program or function. Salaries and related benefits are allocated to the various functions based on time spent by employee. Indirect expenses have been allocated to program and supporting services based on reasonable allocation methods deemed appropriate by management.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class in the Statement of Activities or by function in the Statement of Functional Expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Garden's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Garden 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 Garden.

Subsequent Events

The Garden has evaluated subsequent events through September 7, 2023, the date which the financial statements were available to be issued.

Note 2 - NEW STANDARD

In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - NEW STANDARD (continued)

The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Garden as of January 1, 2022, and has been adopted for all leases for the year ended December 31, 2022. As of December 31, 2022, the Garden had no material noncancellable operating or capital leases.

Note 3 – PLEDGES AND BEQUESTS RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges and bequests receivable and revenue of the appropriate net asset category. Pledges receivable represent multi-year commitments and irrevocable bequests by donors and are reported at estimated present value using a discount rate of 4.73%.

Recognition of all pledges and bequests receivable for the next five years ending December 31 and after is expected to be as follows:

2023		\$ 430,410	
2024		134,243	
2025		55,295	
2026		<u>1,000</u>	
		620,948	
	Less unamortized discount	<u>(11,081)</u>	
	Total pledges and bequests receivable	<u>\$ 609,867</u>	

Note 4 – INVENTORY

Inventory consists of garden shop and nursery inventory totaling \$81,088 at December 31, 2022.

Note 5 – INVESTMENTS

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. At December 31, 2022, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Cash	\$ 862,420	\$ 862,420	\$ -
Fixed income	4,194,348	4,298,949	104,601
Equities	9,111,682	10,156,067	1,044,385
Other	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Total Investments	<u>\$ 14,171,450</u>	<u>\$ 15,320,436</u>	<u>\$ 1,148,986</u>

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5 – INVESTMENTS (continued)

The following summarizes the net change in unrealized gain on investments:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at end of the year	\$ 14,171,450	\$ 15,320,436	\$ 1,148,986
Balance at the beginning of the year	<u>14,065,959</u>	<u>18,416,985</u>	<u>4,351,026</u>
Net change in unrealized gain			<u>\$ (3,202,040)</u>

The following schedule summarizes the investment income in the statement of activities for the year ended December 31, 2022:

Dividends and interest	\$ 368,405
Net unrealized loss	(3,202,040)
Net realized gain	264,767
Investment fees	<u>(112,450)</u>
Investment income	<u>\$ (2,681,318)</u>

Note 6 – FAIR VALUE MEASUREMENT

The Garden has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;
- Level 3: Unobservable inputs that are supported by little or no market activity.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using a pricing model of quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair market valuation of Level 3 securities is based on estimates of management, information valuation methods used within a particular industry, or other market factors to determine if the carrying value of these investments should be adjusted. Because of the inherent uncertainty of valuations, however, the estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6 – FAIR VALUE MEASUREMENT (continued)

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Cash held for investment – Cash held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Fixed income – Corporate bonds and bond funds provide a hedge against deflation, provide a stable return, and to minimize the overall volatility of the account. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date or through the use of pricing models or other valuation methodologies for fixed income securities not actively traded.

Equities and alternatives – Equities and alternatives include a variety of publicly traded stocks and mutual funds from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Charitable Remainder Trust – The Garden is the irrevocable beneficiary of charitable remainder trusts held by a trustee. These resources are neither in the possession of, nor under the control of, the Garden. The beneficial interest in the trusts is reported at its fair value.

Fair value for the contribution receivables from the beneficial interest in perpetual trusts are measured using the fair value of the assets held in the trust as reported by the trustees as of December 31, 2022, less any estimated reserve. The Garden considers the measurement of its beneficial interest in the trusts to be a Level 3 measurement within the fair value hierarchy.

The Garden recognizes transfers between the levels in the fair value hierarchy at the end of the reporting period. There were no transfers between the levels during the year ended December 31, 2022.

The following table presents assets recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2022:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 862,420	\$ -	\$ -	\$ 862,420
Fixed income	2,652,248	1,646,701	-	4,298,949
Equities	10,156,067	-	-	10,156,067
Other	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
 Total assets measured at fair value	 <u>\$ 13,673,735</u>	 <u>\$ 1,646,701</u>	 <u>\$ -</u>	 <u>\$ 15,320,436</u>
 Interests in charitable remainder trusts	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 358,957</u>	 <u>\$ 358,957</u>
 Interests in perpetual trusts	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 1,175,581</u>	 <u>\$ 1,175,581</u>

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6 – FAIR VALUE MEASUREMENT (continued)

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2022:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Distributions</u>	<u>Gain included in changes in net assets</u>	<u>Ending Balance</u>
Charitable remainder trusts	\$ 342,126	\$ -	\$ -	\$ 16,831	\$ 358,957
Interest in perpetual trusts	<u>1,404,483</u>	-	-	<u>(228,902)</u>	<u>1,175,581</u>
Total Assets	<u>\$ 1,746,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(212,071)</u>	<u>\$ 1,534,538</u>

Note 7 – INTEREST IN TRUSTS

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, 2022, the total estimated fair market value of the interests in perpetual trusts was \$1,175,581. 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 year ended December 31, 2022, the present value of the trusts decreased by \$228,902. The total distributions received from the trusts were \$54,263 for the year ended December 31, 2022.

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, 2022, the Garden applied a discount rate of 5 percent. The present value of the trusts as of December 31, 2022, reported in the accompanying statements of financial position was \$358,957.

The change in the value of these assets is recorded annually as an increase or decrease in net assets in the statement of activities. For the year ended December 31, 2022, the present value of the trusts increased by \$16,831.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2022:

Land	\$ 2,634,348
Buildings & improvements	20,170,566
Machinery and equipment	598,460
Furniture and fixtures	276,152
Construction in process	<u>223,349</u>
	23,902,875
Less accumulated depreciation	<u>(5,883,830)</u>
Net property and equipment	<u>\$18,019,045</u>

For the year ending December 31, 2022, the Garden recognized depreciation expense of \$664,679.

Note 9 – DESIGN AND ENTITLEMENT COSTS

Prior to 2010, the Garden incurred basic design and permitting costs that resulted in the entitlement to build additional structures in the Garden in three phases. All costs incurred for phase one were capitalized in the completed structures and improvements in 2016 and are being depreciated over their useful lives. Basic design and permitting costs which entitle the Garden to build phases two and three have been capitalized as a long term asset until construction of these projects begins at which time they will be included in construction in progress.

As of December 31, 2022, the capitalized design and permitting costs by Phase are as follows:

Phase two	\$ 773,668
Phase three	<u>419,165</u>
Total costs	<u>\$ 1,192,833</u>

Note 10 – 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, 2022.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11 – 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 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, 2022, 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 years ended December 31, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,911,430	\$ 7,009,176	\$ 10,920,606
Contributions	-	2,000,000	2,000,000
Investment returns	(558,747)	(1,001,259)	(1,560,006)
Appropriations in accordance with spending policy	<u>(160,130)</u>	<u>(286,948)</u>	<u>(447,078)</u>
Endowment net assets, ending of year	<u>\$ 3,192,553</u>	<u>\$ 7,720,969</u>	<u>\$ 10,913,522</u>

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11 – ENDOWMENT (continued)

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 the donor. The Garden has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There are no deficiencies at December 31, 2022.

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 5% of the prior 12 quarter rolling average endowment portfolio balance.

Note 12 – DEFERRED REVENUE

Deferred revenue consists of the value of annual memberships sold on or before December 31, 2022, and with an expiration date subsequent to December 31, 2022. The amount of deferred revenue reported is based on the number of months remaining of membership benefit value at December 31, 2022.

Note 13 – LINE OF CREDIT

As of August 25, 2020, the Garden obtained a revolving line of credit with Montecito Bank & Trust for \$2,550,000, with a maturity date of August 25, 2025. The line of credit is secured by investment accounts held at the bank. The interest is based on the Wall Street Journal Prime Rate. The minimum interest rate after the first twelve months of the borrowing is 1.50%. The interest rate at December 31, 2022, was 5.75%. As of December 31, 2022, there was no borrowing on the line of credit and the line of credit remains open and available for use by the Garden.

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 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 3.50% 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 2022 was \$122,451.

Note 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. As of December 31, 2022, the Garden's uninsured cash balance was approximately \$17,000.

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.

Note 16 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2022, net assets without donor restrictions consist of the following:

Undesignated net assets	\$ 24,004,635
Education	476,715
Research and conservation	472,448
Horticulture	497,902
General operations	<u>1,745,488</u>
Total board designated for endowment	<u>3,192,553</u>
Total Net Assets Without Donor Restrictions	<u>\$ 27,197,188</u>

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 16 – NET ASSETS (continued)

Net Assets With Donor Restrictions – Temporary in Nature

As of December 31, 2022, net assets with donor restrictions - temporary in nature, consist of the following:

Non-Endowment:	
Charitable remainder trusts	\$ 358,957
Research and conservation	512,791
Education	5,233
Horticulture	65,688
Pledges receivable	137,000
Other restrictions	<u>31,904</u>
	1,111,573
Endowment: unappropriated earnings	
Research and conservations	147,473
Education	279,543
General	27,587
Horticulture	<u>204,276</u>
	<u>658,879</u>
Total net assets with donor restrictions - temporary in nature	<u>\$ 1,770,452</u>

Net Assets With Donor Restrictions – Perpetual in Nature

As of December 31, 2022, net assets with donor restrictions - perpetual in nature, consist of the following:

Non-Endowment:	
Interest in perpetual trusts	<u>\$ 1,175,581</u>
Endowment:	
Research and conservation	2,033,763
Backcountry (including pledges)	2,500,000
Education	1,281,191
General	535,000
Horticulture	<u>712,136</u>
	<u>7,062,090</u>
Total net assets with donor restrictions - perpetual in nature	<u>\$ 8,237,671</u>
Total Net Assets with Donor Restrictions	<u>\$10,008,123</u>

SANTA BARBARA BOTANIC GARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 17 – LIQUIDITY

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:

Cash and cash equivalents	\$ 303,023
Accounts, contracts and other receivables	651,164
Pledges receivable	<u>430,410</u>
Total Current Assets	<u>1,384,597</u>
Investments	15,320,436
Distributions from assets held under split-interest agreements	54,263
Endowment spending-rate distributions and appropriates	768,432
Less donor purpose restrictions non-endowment	(615,617)
Less assets held in endowment	<u>(10,913,522)</u>
Total Investments	<u>4,613,992</u>
Current liabilities	<u>(984,813)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2022	<u>\$ 5,013,776</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 as well as general operations. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$3,192,553 is subject to an annual spending rate of 5 percent as described in Note 10. 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.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Santa Barbara Botanic Garden, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Santa Barbara Botanic Garden, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Santa Barbara Botanic Garden, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santa Barbara Botanic Garden, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Santa Barbara Botanic Garden, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Management Letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Santa Barbara Botanic Garden, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Management Letter.

Santa Barbara Botanic Garden, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Santa Barbara Botanic Garden, Inc.'s response to the findings identified in our audit and described in the accompanying Management Letter. Santa Barbara Botanic Garden's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Santa Barbara, California
September 7, 2023