



SANTA BARBARA BOTANIC GARDEN, INC.

FINANCIAL STATEMENTS

December 31, 2015



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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statement in our report dated June 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

May 6, 2016
Orcutt, California

SANTA BARBRA BOTANIC GARDEN
Statement of Financial Position
December 31, 2015
(with 2014 comparative totals)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 109,161	\$ 444,074
Accounts and contracts receivable, net	41,644	34,985
Short-term pledges receivable, net (note 2)	400,136	563,114
Inventory (note 3)	82,905	65,225
Prepaid expenses and other assets (note 4)	129,706	116,149
Total Current Assets	763,552	1,223,547
Non-Current Assets		
Long-term pledges receivable, net (note 2)	514,926	698,637
Investments (note 5)	7,687,334	10,637,361
Interest in charitable remainder trusts (note 6)	247,383	431,276
Interest in perpetual trusts (note 6)	1,271,703	1,264,617
Property and equipment, net (note 7)	29,455,282	26,059,147
Collections (note 8)	118,275	118,275
Total Assets	\$ 40,058,455	\$ 40,432,860
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 21,722	\$ 211,163
Accrued expenses (note 16)	885,853	830,264
Deferred revenue (note 9)	112,343	148,356
Current portion of long term debt (note 10)	2,599,881	2,596,761
Total Current Liabilities	3,619,799	3,786,544
Notes Payable (note 10)	865,877	885,266
Total Liabilities	4,485,676	4,671,810
Net Assets		
Unrestricted:		
Undesignated	24,810,090	21,287,641
Designated (note 11)	5,098,802	4,627,381
Temporarily restricted (note 11)	2,254,334	6,342,625
Permanently restricted (note 11)	3,409,553	3,503,403
Total Net Assets	35,572,779	35,761,050
Total Liabilities and Net Assets	\$ 40,058,455	\$ 40,432,860

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN
Statement of Activities
For the Year Ended December 31, 2015
(with 2014 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Revenues					
Public Support					
Fundraising events - gross revenue	\$ 90,030	\$ -	\$ -	\$ 90,030	\$ 92,934
Less costs of direct benefits to donors	(83,937)	-	-	(83,937)	(59,599)
Net revenues from fundraising events	<u>6,093</u>	<u>-</u>	<u>-</u>	<u>6,093</u>	<u>33,335</u>
Contributions	594,591	632,460	-	1,227,051	3,400,916
Grants	252,902	-	-	252,902	323,386
In-kind contributions	55,867	-	-	55,867	19,740
Total Public Support	<u>909,453</u>	<u>632,460</u>	<u>-</u>	<u>1,541,913</u>	<u>3,777,377</u>
Other Revenues and Gains					
Shop and plant sales	419,820	-	-	419,820	444,840
Less cost of goods sold	(213,685)	-	-	(213,685)	(231,506)
Gross Profit	206,135	-	-	206,135	213,334
Admissions	381,393	-	-	381,393	381,495
Contracts	264,208	-	-	264,208	108,465
Education program fees	67,433	-	-	67,433	104,460
Investment income (note 5)	(34,735)	11,268	-	(23,467)	272,475
Change in value of trusts	112,715	-	(93,850)	18,865	17,443
Memberships (note 9)	308,118	-	-	308,118	150,171
Miscellaneous revenue	109	-	-	109	112
Residential rental income	109,551	-	-	109,551	83,100
Trust income	58,224	-	-	58,224	51,726
Total Other Revenues and Gains	<u>1,473,151</u>	<u>11,268</u>	<u>(93,850)</u>	<u>1,390,569</u>	<u>1,382,781</u>
Total Revenue	<u>2,382,604</u>	<u>643,728</u>	<u>(93,850)</u>	<u>2,932,482</u>	<u>5,160,158</u>
Net assets released from restrictions	<u>4,732,019</u>	<u>(4,732,019)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses					
Program Expenses:					
Education	311,334	-	-	311,334	369,961
Living Collections	1,017,509	-	-	1,017,509	996,796
Research	454,060	-	-	454,060	207,738
Garden Shop	291,104	-	-	291,104	250,019
Total Program Services	<u>2,074,007</u>	<u>-</u>	<u>-</u>	<u>2,074,007</u>	<u>1,824,514</u>
Supporting Services:					
Management and general	544,465	-	-	544,465	645,547
Fundraising	502,281	-	-	502,281	582,313
Total Supporting Services	<u>1,046,746</u>	<u>-</u>	<u>-</u>	<u>1,046,746</u>	<u>1,227,860</u>
Total Expenses	<u>3,120,753</u>	<u>-</u>	<u>-</u>	<u>3,120,753</u>	<u>3,052,374</u>
Change in net assets	3,993,870	(4,088,291)	(93,850)	(188,271)	2,107,784
Net assets, beginning of year	25,915,022	6,342,625	3,503,403	35,761,050	33,653,266
Net assets, ending of year	<u>\$ 29,908,892</u>	<u>\$ 2,254,334</u>	<u>\$ 3,409,553</u>	<u>\$ 35,572,779</u>	<u>\$ 35,761,050</u>

The accompanying notes are an integral part of this financial statement

SANTA BARBRA BOTANIC GARDEN
Statement of Cash Flows
For the Year Ended December 31, 2015
(with 2014 comparative totals)

	2015 Total	2014 Total
Cash Flows Provided by (Used For) Operating Activities:		
Change in net assets	\$ (188,271)	\$ 2,107,784
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	110,506	138,320
Realized and unrealized loss (gain) on investments	81,633	(183,630)
Change in value of interest in charitable remainder trusts	183,893	(20,148)
Change in value of interest in perpetual trust	(7,086)	2,705
Decrease/(Increase) in accounts and contracts receivable	(6,659)	(23,710)
Decrease/(Increase) in pledges receivable	346,689	(237,585)
Decrease/(Increase) in prepaid expenses and other assets	(13,557)	(32,885)
Decrease/(Increase) in inventory	(17,680)	11,410
(Decrease)/Increase in accounts payable	(189,441)	153,597
(Decrease)/Increase in accrued expenses	55,589	(1,876)
(Decrease)/Increase in deferred revenue	(36,013)	76,433
Net cash provided by (used for) operating activities	319,603	1,990,415
Cash Flows Provided by (Used For) Investing Activities:		
Purchase of fixed assets	-	(2,500)
Purchase of construction in process	(3,506,641)	(1,860,638)
Purchase of investments	(2,522,515)	(3,228,998)
Proceeds from sale of investments	5,390,909	3,101,002
Net cash provided by (used for) investing activities	(638,247)	(1,991,134)
Cash Flows Provided by (Used For) Financing Activities:		
Payments on long-term debt	(16,269)	(17,973)
Net cash provided by (used for) financing activities	(16,269)	(17,973)
Net increase (decrease) in cash and cash equivalents	(334,913)	(18,692)
Cash and cash equivalents at Beginning of Year	444,074	462,766
Cash and cash equivalents at Ending of Year	\$ 109,161	\$ 444,074
<u>Supplemental Cash Flow Information:</u>		
Interest paid during the year	\$ 43,399	\$ 48,209

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN
Statement of Functional Expenses
For the Year Ended December 31, 2015
(with 2014 comparative totals)

	Program Expense					Supporting Services		2015 Totals	2014 Totals
	Education	Living Collections	Conservation and Research	Garden Shop	Total Program	Mgmt. & General	Fundraising		
Salaries and wages	\$ 194,251	\$ 464,724	\$ 192,336	\$ 226,490	\$ 1,077,801	\$ 189,359	\$ 295,720	\$ 1,562,880	\$ 1,493,746
Pension expense	4,327	14,818	2,368	4,456	25,969	3,012	7,203	36,184	25,095
Employee benefits	29,858	82,258	27,920	19,853	159,889	25,927	41,457	227,273	242,729
Payroll taxes	12,326	63,713	7,027	18,053	101,119	6,396	23,680	131,195	123,957
Unemployment paid	-	-	-	-	-	-	-	-	-
Subtotal	240,762	625,513	229,651	268,852	1,364,778	224,694	368,060	1,957,532	1,885,527
Accounting fees	-	-	-	-	-	15,910	-	15,910	15,205
Advertising and promotion	-	-	-	-	-	204	32,252	32,456	34,406
Bank fees	1,438	3,584	771	1,078	6,871	3,854	2,384	13,109	18,111
Classes, tours and events	26,518	-	-	-	26,518	-	7,528	34,046	50,290
Conferences and meetings	4,276	3,896	-	-	8,172	3,565	1,472	13,209	18,957
Contracted services	3,656	33,639	197,701	-	234,996	46,763	8,644	290,403	169,895
Equipment and supplies	14,145	22,321	4,734	4,662	45,862	16,142	10,252	72,256	59,652
Fundraising fees	-	-	-	-	-	-	-	-	97,582
Grounds and maintenance	54	192,472	3,041	-	195,567	-	-	195,567	219,585
Insurance	16,048	39,391	8,754	11,671	75,864	43,768	26,261	145,893	110,863
Legal fees	-	-	-	-	-	-	-	-	-
Library	-	-	1,838	-	1,838	-	-	1,838	433
Mortgage interest	-	-	-	-	-	103,576	-	103,576	101,411
Postage	-	171	-	-	171	1,204	5,111	6,486	13,435
Professional memberships	-	150	1,529	122	1,801	5,958	667	8,426	5,200
Publications	-	-	-	-	-	-	35,119	35,119	24,483
Research and laboratory	-	-	2,077	-	2,077	1,278	-	3,355	740
Telephone	1,989	5,102	988	1,423	9,502	4,941	3,046	17,489	16,988
Travel	2,448	9,223	1,435	213	13,319	5,373	1,485	20,177	23,082
Utilities	-	42,039	-	-	42,039	1,360	-	43,399	48,209
Total Expenses Before Depreciation and Allowance for uncollectible Pledges Receivable	311,334	977,501	452,519	288,021	2,029,375	478,590	502,281	3,010,246	2,914,054
Depreciation	-	40,008	1,541	3,083	44,632	65,875	-	110,507	138,320
Allowance for uncollectible pledges receivable	-	-	-	-	-	-	-	-	-
Total Expenses, December 31, 2015	<u>\$ 311,334</u>	<u>\$ 1,017,509</u>	<u>\$ 454,060</u>	<u>\$ 291,104</u>	<u>\$ 2,074,007</u>	<u>\$ 544,465</u>	<u>\$ 502,281</u>	<u>\$ 3,120,753</u>	
Total Expenses, December 31, 2014	<u>\$ 369,961</u>	<u>\$ 996,796</u>	<u>\$ 207,738</u>	<u>\$ 250,019</u>	<u>\$ 1,824,514</u>	<u>\$ 645,547</u>	<u>\$ 582,313</u>		<u>\$ 3,052,374</u>

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2015

(1) Summary of 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: To provide professionals, scientists, students and the general public with formal and informal education programs, community programs, and membership activities to expand the knowledge, understanding and support of the plant sciences in the area of California native flora.

Living Collections: To maintain and display living plant collections of native California plants.

Conservation and Research: To contribute to the conservation of California's flora by documenting and describing its biodiversity, maintaining conservation collections of rare taxa, and conducting ecological research.

Garden Shop: To support 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.

Fund Accounting

The accounts of the Garden are maintained in accordance with the principles of fund accounting. This accounting and reporting method classifies resources by their nature and purpose based on the presence or absence of donor-imposed restrictions, into three classes of net assets: unrestricted, temporarily restricted net assets and permanently restricted net assets.

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2015

Unrestricted net assets consist of funds free of any donor-imposed restrictions and are sub-classified into operating funds and board designated funds. Unrestricted net assets consist of the following:

- Operating Funds that are unrestricted resources used to support the Garden's operations.
- Property Funds that are unrestricted resources used to support the Garden's acquisition of all land, buildings, equipment and construction in progress. These acquisitions are financed initially by restricted donations or transfers from designated or operating funds.
- Board Designated Funds that are primarily quasi-endowment funds consisting of realized and unrealized capital gains from existing permanently restricted endowment funds as well as funds that the Board of Directors has decided to maintain intact and to invest to generate operating income.

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Garden that fulfill donor stipulations.

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Garden. These funds are invested to provide income to support either specific activities or general operations, in accordance with donor stipulations.

Cash and Cash Equivalents

The Garden classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents. For the purposes of the statement of cash flows, cash instruments are considered to be cash equivalents if they are not held at investment brokers and not subject to donor restrictions limiting their use to long-term purposes.

Pledges Receivable

Unconditional promises to give (pledges) are recorded as contribution income and as receivables. Long-term pledges are discounted to present value using a discount rate commensurate with the risk involved. An allowance for uncollectable pledges is estimated by management based in such factors as prior collection history, type of contribution and the nature of the fund-activity. Management has recorded an allowance for uncollectable pledges totaling \$9,433 at December 31, 2015.

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
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Conditional pledges are recognized when the conditions on which they depend are substantially met.

Investments and Investment Income

The Garden carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. The market value of mutual funds is determined by quoted rates.

Other investments are carried at cost, which approximates fair value, or, if donated, at market value at the date of donation. Fair market values for these investments are generally unavailable.

Inventory

Inventory is valued at the lower of cost or market, using the average cost method. The inventory consists of purchased materials and publications, which are held for sale to the members of the Garden or visitors to the Garden's bookstore.

Property, Equipment and Depreciation

Property and equipment are carried at cost, or if donated, at the fair value at the date of donation.

Depreciation of property and equipment is provided using the straight-line method over their useful lives. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Assets classified as work in process are not used in operations and are not subject to depreciation until the assets are placed in service.

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
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Expenditures for maintenance and repairs are charged directly to the appropriate operating account at the time the expense is incurred. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. The Garden's capitalization policy is to capitalize purchases of long-lived assets costing \$3,000 or more.

Inexhaustible 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.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Garden with education, garden shop programs, and various other committee assignments. Unless volunteer service met the recognition requirements of generally accepted accounting principles, no amount was recorded in the financial statements for these services. The Garden received the benefit of more than 13,000 and 13,300 volunteer hours in 2015 and 2014.

Functional Expenses

The costs of providing the various programs and other activities are either directly charged to a department based on direct expenditures incurred or are allocated based on the estimated benefit to each department. Allocations methodologies utilize a variety of factors such as

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
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hours spent on task, square footage occupied, or other factors relevant to the costs being allocated.

Fair Value of Financial Instruments

The fair value of the accounts receivable, inventory, prepaid expenses, other assets, accounts payables, and accrued liabilities approximate book value because of the short-term nature of these items. The book value of pledges receivable reflects fair value as the interest rate applied in calculating the discount reflects current market rates. Investments are held at estimated fair value.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Significant estimates used in preparing these financial statements include:

- Depreciable lives of property and equipment
- Fair value of investments in debt and equity securities
- Allocation of functional expenses
- Valuation of interest in charitable trusts and perpetual trusts

It is at least reasonably possible that the significant estimates used will change within the next year. Actual results could differ from those estimates.

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, 2015. At December 31, 2014 or for any years for which the statute is open, the Garden is not aware of any uncertain tax positions. The tax years ending 2012, 2013 and 2014 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.

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Notes to Financial Statements
December 31, 2015

(2) Pledges Receivable

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

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 409,569	\$ 576,136
Less allowance for uncollectible pledges receivable	<u>(9,433)</u>	<u>(13,022)</u>
Short-term Pledges Receivable, Net	<u>\$ 400,136</u>	<u>\$ 563,114</u>
Two to five years	\$ 533,713	\$ 686,101
Thereafter	-	40,000
Less discount to present value	<u>(18,787)</u>	<u>(27,464)</u>
Long-term Pledges Receivable, Net	<u>\$ 514,926</u>	<u>\$ 698,637</u>

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

(3) Inventory

Inventory consists of the following amounts at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Garden Shop supplies	\$ 67,262	\$ 49,879
Nursery supplies	<u>15,643</u>	<u>15,346</u>
Total Inventory	<u>\$ 82,905</u>	<u>\$ 65,225</u>

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Notes to Financial Statements
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(4) Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Prepaid non-insurance expenses	\$ 44,467	\$ 23,016
Prepaid insurance premiums	57,633	55,275
Workers compensation deposit	20,998	16,694
Other assets	<u>6,608</u>	<u>21,164</u>
Total Prepaid Expenses and Other Assets	<u>\$ 129,706</u>	<u>\$ 116,149</u>

(5) Investments

Investments are carried at fair market value based on quoted market prices. The Garden held the following investments at December 31, 2015 and 2014:

<u>2015</u>	<u>Market</u>	<u>Cost</u>	<u>Unrealized Appreciation Depreciation</u>
Common stock	\$ 1,221,685	\$ 1,097,459	\$ 124,226
Mutual funds	3,288,099	3,028,793	259,306
Other government securities	57,948	49,687	8,261
Cash held for long-term purposes	3,108,748	3,108,748	-
Other nonmarketable investments	<u>10,854</u>	<u>10,854</u>	<u>-</u>
Totals	<u>\$ 7,687,334</u>	<u>\$ 7,295,541</u>	<u>\$ 391,793</u>

<u>2014</u>	<u>Market</u>	<u>Cost</u>	<u>Unrealized Appreciation Depreciation</u>
Common stock	\$ 1,171,126	\$ 1,040,589	\$ 130,537
Mutual funds	3,868,827	3,332,987	535,840
Corporate bonds	302,430	314,862	(12,432)
Long-term certificates of deposit	5,129,411	5,128,767	644
Cash held for long-term purposes	154,713	154,713	-
Other nonmarketable investments	<u>10,854</u>	<u>10,854</u>	<u>-</u>
Totals	<u>\$ 10,637,361</u>	<u>\$ 9,982,772</u>	<u>\$ 654,589</u>

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Notes to Financial Statements
December 31, 2015

Investment income for the years ended December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 100,560	\$ 131,061
Realized gain	56	1,181
Unrealized loss	(81,689)	183,449
Investment fees	<u>(42,394)</u>	<u>(43,216)</u>
Total Investment Income	<u>\$ (23,467)</u>	<u>\$ 272,475</u>

(6) 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, 2015, and 2014, the total estimated fair market value of the interests in perpetual trusts was \$1,271,703 and \$1,264,617, respectively. The change in the value of these trusts was recorded as an increase or decrease in permanently restricted net assets in the Statement of Activities. The total support from the trusts was \$58,224 and \$51,726 for the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014, the Garden applied a discount rate of 5 percent. The present value of the trusts as of December 31, 2015 and 2014 reported in the accompanying statements of financial position was \$247,383 and \$431,276, respectively.

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The change in the value of these assets is recorded annually as an increase or decrease in temporarily restricted net assets in the statement of activities. For the years ended December 31, 2015 and 2014, the present value of the trusts increased by \$11,779 and \$20,148, respectively.

(7) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 14,902,006	\$ 14,902,006
Buildings & improvements	4,070,412	4,070,412
Machinery and equipment	435,407	435,407
Furniture and fixtures	399,440	399,440
Work in process	<u>12,523,198</u>	<u>9,016,555</u>
Total cost	32,330,463	28,823,820
Less accumulated depreciation	<u>(2,875,181)</u>	<u>(2,764,673)</u>
Net property and equipment	<u>\$ 29,455,282</u>	<u>\$ 26,059,147</u>

For the year ending December 31, 2015 and 2014, the Garden recognized depreciation expense of \$110,506 and 138,320, respectively.

Work in progress includes costs associated with the Garden’s “Vital Mission Plan” the building plan of which the first phase is currently being undertaken. In June 2010, the Garden received approval from the County of Santa Barbara Planning and Development for existing CUP and development of approximately 26,000 square feet of net additional building area for research, educational, and administrative. The project includes: a newly added 13.15 acre parcel to the CUP (for a total of approximately 78 acres); improvements to internal circulation and parking; removal of fencing; improvements and expansion of trail systems; improvements to fire protection for all existing and proposed development; and extension of municipal sewer and water service so as to serve the entire project site. Increases in staff, visitors, and classes are proposed and anticipated.

(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

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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, 2015 or December 31, 2014.

(9) Deferred Revenue

Deferred revenue consists of annual memberships sold on or before December 31, 2015 and with an expiration date subsequent to December 31, 2015. The amount of deferred revenue reported is based on the number of months remaining of membership benefits remaining at December 31, 2015.

(10) Notes Payable

The Garden holds two notes payable.

The first note payable is a \$940,000 mortgage held by Union Bank (formerly known as Santa Barbara 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 2014 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, 2015 is \$884,718.

The second note payable is a revolving-term note held by Union Bank, (formerly known as Santa Barbara Bank & Trust). The note carries a variable interest rate of 2.25%, calculated as 1% below Wall Street Journal Prime Rate with a minimum interest rate (i.e. floor) of 2% per annum. Under the terms of the note agreement the total amount available to the Garden is \$3,500,000 and requires payment in full or renewal on or before December 2015. The balance of the note payable at December 31, 2015 is \$2,581,040. The note matures October 2016. The Garden intends to renew the note payable annually.

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

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2016	\$ 2,599,881
2017	18,091
2018	19,030
2019	20,018
2020	21,058
Thereafter	<u>787,680</u>
 Total	 <u>\$ 3,465,758</u>

(11) Board Designated and Restricted Net Assets

Board Designated Net Assets

Board designated net assets consist of the following amounts at December 31, 2015:

Quasi-endowment – education	\$ 488,767
Quasi-endowment – research and conservation	483,820
Quasi-endowment – horticulture	510,488
Quasi-endowment – general operations	<u>1,830,976</u>
Subtotal Quasi-Endowment	3,314,051
Capital campaign/building program	<u>1,784,751</u>
 Total Board Designated Net Assets	 <u>\$ 5,098,802</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of following amounts at December 31, 2015:

Endowment – education	\$ 326,988
Endowment – research and conservation	140,428
Endowment – horticulture	<u>322,361</u>
Subtotal – Endowment	789,777
Education	50,441
Research and conservation	41,897
Horticulture	192,852
Other restrictions	8,000
Future periods – pledges receivable	247,383
Capital campaign/building program*	<u>923,984</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 2,254,334</u>

* - includes pledges receivable restricted for capital campaign/building program.

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Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment fund investments to be held indefinitely and interest in perpetual trusts. Unless specifically restricted by the donor, income from permanently restricted net assets is expendable to support program services and thus is recorded as increases to unrestricted net assets. Permanently restricted net assets as of December 31, 2015 are as follows:

Endowment	\$ 2,238,786
Interest in perpetual trusts	<u>1,170,767</u>
Total Permanently Restricted Net Assets	<u>\$ 3,409,553</u>

(12) Assets Valued at Fair Value

The Garden is subject to the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines 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. ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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 and 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 and that are significant to the fair value of the assets or liabilities.

In determining fair value, the Garden utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

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At December 31, 2015, the Garden held certain assets and instruments that are required to be measured at fair value on a recurring basis.

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the interest in trusts is determined by calculating the present value of future annual cash flows of the Charitable Remainder Trusts (CRT) using a discount rate of 5.0%. Fair value for the interest in trusts is determined by calculating the present value of future annual cash flows of the Interest in Perpetual Trusts using a discount rate of 4.25%. Fair value of Mutual funds using funds provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12.

Financial assets carried at fair value as of December 31, 2015, are classified in the table below in one of the three categories described above:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Securities			
Common stock	\$ 1,221,685	\$ -	\$ -
Mutual funds	3,288,099	-	-
Other government securities	57,948	-	-
Cash held for long- term use	<u>3,108,748</u>	<u>-</u>	<u>-</u>
Total Marketable Securities	7,676,480	-	-
Other non-marketable			
Investments	-	10,854	-
Interest in Perpetual Trusts	-	-	1,271,703
Interest in Charitable Remainder Trusts	-	-	<u>247,383</u>
Total	<u>\$ 7,676,480</u>	<u>\$ 10,854</u>	<u>\$ 1,519,086</u>

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Financial assets carried at fair value as of December 31, 2014, are classified in the table below in one of the three categories described above:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Securities			
Common stock	\$ 1,171,126	\$ -	\$ -
Mutual funds	3,868,827	-	-
Bonds	302,430	-	-
Certificates of deposit	5,129,411	-	-
Cash held for long- term use	<u>154,713</u>	<u>-</u>	<u>-</u>
Total Marketable Securities	10,626,507	-	-
Other Non-Marketable			
Investments	-	10,854	-
Interest in Perpetual Trusts	-	-	1,264,617
Interest in Charitable Remainder Trusts	<u>-</u>	<u>-</u>	<u>431,276</u>
Total	<u>\$ 10,626,507</u>	<u>\$ 10,854</u>	<u>\$ 1,695,893</u>

Changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are:

	Interest in Charitable Remainder Trusts	Interest in Perpetual Trusts
Balance January 1, 2015	\$ 431,276	\$ 1264,617
Change in value of interest in trusts	112,715	7,086
Beneficial interest payment	<u>(296,608)</u>	<u>-</u>
Balance December 31, 2015	<u>\$ 247,383</u>	<u>\$ 1,271,703</u>

There were no significant transfers between Level I, Level II and Level III of the fair value hierarchy during 2015.

(13) Endowment

The Garden's endowment has been established for a variety of program and building purposes. Its endowment consists of donor-restricted and board designated endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to

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function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Garden has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Garden classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Garden considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Garden and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Garden
- (7) The investment policies of the Garden.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Garden to retain as a fund of perpetual duration. The Garden's endowment funds did not fall below the levels required as of December 31, 2015 or December 31, 2014.

Return Objectives and Risk Parameters

The Garden has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Garden must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Garden relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Garden targets a diversified asset

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allocation that places a greater emphasis on mutual funds and equity investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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.

Endowment net asset composition as of December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Total Endowment	\$ 3,314,051	\$ 789,777	\$ 2,238,786	\$6,342,614

Changes in endowment net assets for the fiscal year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,799,311	\$ 846,762	\$ 2,238,786	\$ 5,884,859
Contributions	726,005	495	-	726,500
Investment income	(22,473)	-	-	(22,473)
Expenditures	<u>(188,792)</u>	<u>(57,480)</u>	<u>-</u>	<u>(246,272)</u>
Endowment net assets, ending of year	<u>\$ 3,314,051</u>	<u>\$ 789,777</u>	<u>\$ 2,238,786</u>	<u>\$ 6,342,614</u>

(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 2015 and 2014 was \$34,407 and \$25,097, respectively.

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The Garden offers employee vacation which is accrued based on certain eligibility requirements and years of service. The vacation accrual balance in 2015 and 2014 was \$128,914 and \$97,265, respectively.

The Garden accrues employee wages and benefits. The balances in 2015 and 2014 were \$56,320 and \$42,333, 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. The Garden had no excess of FDIC limit as of December 31, 2015 and 2014, respectively.

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.

(16) Jesusita Fire

In June 2009 the Santa Barbara area experienced a wild fire 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 \$687,160 and \$687,160 as of December 31, 2015 and 2014, respectively. The Garden reviews the costs annually.

(17) Subsequent Events

Management has evaluated subsequent events through May 6, 2016 which is the date the financial statements were available to be issued pending final approval of the Board of

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Directors. Management has determined no subsequent events requiring disclosure or significantly impacting disclosure have occurred.