



**SANTA BARBARA BOTANIC GARDEN, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2017**



## **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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statement in our report dated March 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

September 13, 2018  
Orcutt, California

**SANTA BARBARA BOTANIC GARDEN**  
**Statement of Financial Position**  
**December 31, 2017**  
**(with 2016 comparative totals)**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 136,124	\$ 530,890
Accounts and contracts receivable, net	55,435	4,017
Short-term pledges receivable, net (note 2)	224,033	195,737
Inventory (note 3)	82,548	74,295
Prepaid expenses and other assets	106,086	72,890
<b>Total Current Assets</b>	604,226	877,829
<b>Non-Current Assets</b>		
Long-term pledges receivable, net (note 2)	106,344	378,949
Investments (notes 4 and 11)	14,635,931	8,300,834
Interest in charitable remainder trusts (note 5)	281,379	267,980
Interest in perpetual trusts (note 5)	1,239,936	1,174,419
Property and equipment, net (note 6)	24,701,098	28,608,097
Collections (note 7)	118,275	118,275
<b>Total Assets</b>	\$ 41,687,189	\$ 39,726,383
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 107,581	\$ 40,522
Accrued expenses (note 15)	555,497	720,404
Deferred revenue (note 8)	62,265	83,644
Current portion of long term debt (note 9)	2,543,633	17,716
<b>Total Current Liabilities</b>	3,268,976	862,286
<b>Notes Payable (note 9)</b>	828,466	3,372,099
<b>Total Liabilities</b>	4,097,442	4,234,385
<b>Net Assets</b>		
Unrestricted:		
Undesignated	26,327,179	26,028,185
Designated (note 10)	3,691,689	3,354,687
Temporarily restricted (note 10)	2,803,853	2,692,399
Permanently restricted (note 10)	4,767,026	3,416,727
<b>Total Net Assets</b>	37,589,747	35,491,998
<b>Total Liabilities and Net Assets</b>	\$ 41,687,189	\$ 39,726,383

The accompanying notes are an integral part of this financial statement

**SANTA BARBARA BOTANIC GARDEN**  
**Statement of Activities**  
**For the Year Ended December 31, 2017**  
**(with 2016 comparative totals)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>Revenues</b>					
<b>Public Support</b>					
Fundraising events - gross revenue	\$ 106,195	\$ -	\$ -	\$ 106,195	\$ 192,858
Less costs of direct benefits to donors	(81,644)	-	-	(81,644)	(134,385)
Net revenues from fundraising events	24,551	-	-	24,551	58,473
Contributions	421,145	66,890	1,314,798	1,802,833	1,102,547
Grants	206,344	50,000	-	256,344	163,052
In-kind contributions	53,187	-	-	53,187	152,887
<b>Total Public Support</b>	<u>705,227</u>	<u>116,890</u>	<u>1,314,798</u>	<u>2,136,915</u>	<u>1,476,959</u>
<b>Other Revenues and Gains</b>					
Shop and plant sales	405,724	-	-	405,724	406,084
Less cost of goods sold	(205,762)	-	-	(205,762)	(217,843)
Gross Profit	199,962	-	-	199,962	188,241
Admissions	532,362	-	-	532,362	449,820
Contracts	301,241	-	-	301,241	745,061
Education program fees	67,543	-	-	67,543	162,187
Investment income (notes 4 and 11)	689,426	692,025	1,805	1,383,256	365,117
Change in value of trusts (note 5)	13,399	-	65,517	78,916	(76,688)
Gain sale of assets (note 6)	707,978	-	-	707,978	134,746
Memberships (note 8)	291,804	-	-	291,804	224,331
Miscellaneous revenue	403	-	-	403	3,456
Residential rental income	128,458	-	-	128,458	106,691
Trust income	208,296	-	-	208,296	56,139
<b>Total Other Revenues and Gains</b>	<u>3,140,872</u>	<u>692,025</u>	<u>67,322</u>	<u>3,900,219</u>	<u>2,359,101</u>
<b>Total Revenue</b>	<u>3,846,099</u>	<u>808,915</u>	<u>1,382,120</u>	<u>6,037,134</u>	<u>3,836,060</u>
Net assets released from restrictions (note 16)	729,282	(697,461)	(31,821)	-	-
<b>Expenses</b>					
<b>Program Expenses:</b>					
Education	489,034	-	-	489,034	490,513
Living Collections	1,079,669	-	-	1,079,669	1,001,920
Research	984,594	-	-	984,594	1,347,345
Garden Shop	315,362	-	-	315,362	324,786
<b>Total Program Services</b>	<u>2,868,659</u>	<u>-</u>	<u>-</u>	<u>2,868,659</u>	<u>3,164,564</u>
<b>Supporting Services:</b>					
Management and general	629,918	-	-	629,918	433,057
Fundraising	440,808	-	-	440,808	319,220
<b>Total Supporting Services</b>	<u>1,070,726</u>	<u>-</u>	<u>-</u>	<u>1,070,726</u>	<u>752,277</u>
<b>Total Expenses</b>	<u>3,939,385</u>	<u>-</u>	<u>-</u>	<u>3,939,385</u>	<u>3,916,841</u>
Change in net assets	635,996	111,454	1,350,299	2,097,749	(80,781)
Net assets, beginning of year	29,382,872	2,692,399	3,416,727	35,491,998	35,572,779
Net assets, ending of year	<u>\$ 30,018,868</u>	<u>\$ 2,803,853</u>	<u>\$ 4,767,026</u>	<u>\$ 37,589,747</u>	<u>\$35,491,998</u>

The accompanying notes are an integral part of this financial statement

**SANTA BARBARA BOTANIC GARDEN**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**  
**(with 2016 comparative totals)**

	<b>2017 Total</b>	<b>2016 Total</b>
<b>Cash Flows Provided by (Used For) Operating Activities:</b>		
Change in net assets	\$ 2,097,749	\$ (80,781)
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	623,977	322,864
Realized and unrealized (gain) on investments	(1,166,776)	(55,343)
Gain on sale of fixed assets	(707,978)	(134,746)
(Increase) in value of interest in charitable remainder trusts	(13,399)	(20,597)
(Increase)/Decrease in value of interest in perpetual trust	(65,517)	97,284
(Increase)/Decrease in accounts and contracts receivable	(51,418)	37,627
Decrease in pledges receivable	244,309	340,376
(Increase)/Decrease in prepaid expenses and other assets	(33,196)	56,816
(Increase)/Decrease in inventory	(8,253)	8,610
Increase in accounts payable	67,059	18,800
(Decrease) in accrued expenses	(164,907)	(165,449)
(Decrease) in deferred revenue	(21,379)	(28,699)
Net cash provided by (used for) operating activities	800,271	396,762
<b>Cash Flows Provided by (Used For) Investing Activities:</b>		
Purchase of fixed assets and construction in process	(1,009,000)	(4,340,933)
Purchase of investments	(6,932,982)	(1,660,000)
Proceeds from sale of fixed assets (note 6)	5,000,000	5,000,000
Proceeds from sale of investments	1,764,661	1,101,843
Net cash provided by (used for) investing activities	(1,177,321)	100,910
<b>Cash Flows Provided by (Used For) Financing Activities:</b>		
Payments on long-term debt	(17,716)	(75,943)
Net cash provided by (used for) financing activities	(17,716)	(75,943)
Net increase (decrease) in cash and cash equivalents	(394,766)	421,729
Cash and cash equivalents at Beginning of Year	530,890	109,161
Cash and cash equivalents at Ending of Year	\$ 136,124	\$ 530,890
<u>Supplemental Cash Flow Information:</u>		
Interest paid during the year	\$ 88,146	\$ 96,976

The accompanying notes are an integral part of this financial statement

**SANTA BARBARA BOTAINC GARDEN**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2017**  
**(with 2016 comparative totals)**

	<b>Program Expense</b>					<b>Supporting Services</b>		<b>2017 Totals</b>	<b>2016 Totals</b>
	<b>Education</b>	<b>Living Collections</b>	<b>Conservation and Research</b>	<b>Garden Shop</b>	<b>Total Program</b>	<b>Mgmt. &amp; General</b>	<b>Fundraising</b>		
Salaries and wages	\$ 163,329	\$ 471,265	\$ 310,166	\$ 176,232	\$ 1,120,992	\$ 288,865	\$ 293,349	\$ 1,703,206	\$ 1,554,864
Pension expense	5,731	17,604	11,293	5,145	39,773	13,116	8,133	61,022	56,663
Employee benefits	27,711	94,114	50,044	2,743	174,612	73,146	26,610	274,368	262,015
Payroll taxes	11,687	51,716	26,395	16,016	105,814	25,853	23,260	154,927	157,799
Subtotal	208,458	634,699	397,898	200,136	1,441,191	400,980	351,352	2,193,523	2,031,341
Accounting fees	-	-	-	-	-	16,139	-	16,139	17,298
Advertising and promotion	5,500	5,500	6,000	5,500	22,500	5,704	5,580	33,784	30,218
Bank fees	3,808	3,693	4,341	1,492	13,334	1,439	2,428	17,201	18,163
Classes, tours and events	39,585	2,771	6,427	-	48,783	83	-	48,866	117,489
Conferences and meetings	1,579	2,791	5,075	94	9,539	5,121	3,635	18,295	13,923
Contracted services	25,495	21,414	232,907	6,711	286,527	6,714	16,198	309,439	605,346
Equipment and supplies	32,859	32,654	29,385	9,536	104,434	9,364	8,384	122,182	73,225
Grounds and maintenance	805	101,260	3,596	-	105,661	3,285	-	108,946	200,328
Insurance	35,648	44,098	52,918	17,639	150,303	17,642	8,819	176,764	183,970
Mortgage interest	-	-	-	-	-	88,146	-	88,146	96,976
Postage	10	62	383	-	455	827	3,088	4,370	5,785
Professional memberships	1,809	2,262	3,353	904	8,328	906	1,900	11,134	10,876
Publications	6,879	6,826	6,857	6,878	27,440	7,029	6,830	41,299	50,681
Research and laboratory	-	-	28,200	-	28,200	-	-	28,200	14,217
Telephone	7,734	10,064	10,624	3,625	32,047	3,324	2,463	37,834	25,490
Travel	1,928	620	18,139	2	20,689	4,751	899	26,339	49,044
Utilities	-	32,947	-	-	32,947	-	-	32,947	49,607
Total Expenses Before Depreciation and Allowance for uncollectible Pledges Receivabl	372,097	901,661	806,103	252,517	2,332,378	571,454	411,576	3,315,408	3,593,977
Depreciation	116,937	178,008	178,491	62,845	536,281	58,464	29,232	623,977	322,864
Total Expenses, December 31, 2017	<b>\$ 489,034</b>	<b>\$ 1,079,669</b>	<b>\$ 984,594</b>	<b>\$ 315,362</b>	<b>\$ 2,868,659</b>	<b>\$ 629,918</b>	<b>\$ 440,808</b>	<b>\$ 3,939,385</b>	
Total Expenses, December 31, 2016	<b>\$ 490,513</b>	<b>\$ 1,001,920</b>	<b>\$ 1,347,345</b>	<b>\$ 324,786</b>	<b>\$ 3,164,564</b>	<b>\$ 433,057</b>	<b>\$ 319,220</b>		<b>\$ 3,916,841</b>

The accompanying notes are an integral part of this financial statement

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

**(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: 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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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

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

### **Basis of Accounting**

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

### **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.

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.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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 uncollectible pledges totaling \$3,382 at December 31, 2017.

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.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

**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.

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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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 16,530 and 13,000 volunteer hours in 2017 and 2016.

**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 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:

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

- 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, 2017. At December 31, 2017 or for any years for which the statute is open, the Garden is not aware of any uncertain tax positions. The tax years ending 2014, 2015 and 2016 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.

**Advertising**

The Garden uses advertising to promote its programs. The production costs of advertising are expensed the first time the advertising takes place. The Garden incurred \$31,483 of advertising costs for the year ended December 31, 2017.

**(2) Pledges Receivable**

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

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 227,415	\$ 201,616
Less allowance for uncollectible pledges receivable	<u>(3,382)</u>	<u>(5,879)</u>
Short-term Pledges Receivable, Net	<u>\$ 224,033</u>	<u>\$ 195,737</u>
Two to five years	\$ 110,820	\$ 391,141
Less discount to present value	<u>(4,476)</u>	<u>(12,192)</u>
Long-term Pledges Receivable, Net	<u>\$ 106,344</u>	<u>\$ 378,949</u>

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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

**(3) Inventory**

Inventory consists of the following amounts at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Garden Shop supplies	\$ 68,493	\$ 59,904
Nursery supplies	<u>14,055</u>	<u>14,391</u>
Total Inventory	<u>\$ 82,548</u>	<u>\$ 74,295</u>

**(4) Investments**

Investments are carried at fair market value based on quoted market prices. The Garden held the following investments at December 31, 2017 and 2016:

<u>2017</u>	<u>Market</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds:			
Equities	\$ 4,008,957	\$ 3,188,221	\$ 820,736
Fixed income	2,972,454	2,934,659	37,795
Hedge funds	328,918	313,722	15,196
Real estate	212,752	202,699	10,053
Commodities	<u>279,969</u>	<u>222,104</u>	<u>57,865</u>
Subtotal Mutual Funds	7,803,050	6,861,405	941,645
Common stock	4,489,227	3,955,488	533,739
Corporate bonds	720,549	724,762	(4,213)
Municipal bonds	830,861	838,468	(7,607)
Cash held for long-term purposes	781,390	781,390	-
Other nonmarketable investments	<u>10,854</u>	<u>10,854</u>	<u>-</u>
Totals	<u>\$ 14,635,931</u>	<u>\$ 13,172,367</u>	<u>\$ 1,463,564</u>

The Garden has placed investments held at Northern Trust totaling \$7,682,038 at December 31, 2017 as collateral for a revolving-term note held by Northern Trust. See discussion of payable and collateral at note 9 of these financial statements.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

<u>2016</u>	<u>Market</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds:			
Equities	\$ 1,941,072	\$ 1,555,139	\$ 385,933
Fixed income	2,640,445	2,616,579	23,866
Hedge funds	445,668	437,314	8,354
Real estate	349,460	349,460	-
Commodities	<u>225,841</u>	<u>206,919</u>	<u>18,922</u>
Subtotal Mutual Funds	5,602,486	5,165,411	437,075
Common stock	1,726,104	1,656,814	69,290
Cash held for long-term purposes	961,390	961,390	-
Other nonmarketable investments	<u>10,854</u>	<u>10,854</u>	<u>-</u>
Totals	<u>\$ 8,300,834</u>	<u>\$ 7,794,469</u>	<u>\$ 506,365</u>

Investment income for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 272,550	\$ 343,971
Realized gain (loss)	209,577	(59,229)
Unrealized gain (loss)	957,199	114,572
Investment fees	<u>(56,070)</u>	<u>(34,197)</u>
Total Investment Income	<u>\$ 1,383,256</u>	<u>\$ 365,117</u>

**(5) 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.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

As of December 31, 2017, and 2016, the total estimated fair market value of the interests in perpetual trusts was \$1,239,936 and \$1,174,419, 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. For the years ended December 31, 2017 and 2016, the present value of the trusts increased by \$65,517 and \$20,597 respectively. The total distributions received from the trusts were \$208,296 and \$56,139 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, the Garden applied a discount rate of 5 percent. The present value of the trusts as of December 31, 2017 and 2016 reported in the accompanying statements of financial position was \$281,379 and \$267,980, respectively.

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 years ended December 31, 2017 and 2016, the present value of the trusts increased by \$13,399 and \$20,597, respectively.

**(6) Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 6,403,458	\$ 10,310,361
Buildings & improvements	19,496,183	19,578,505
Machinery and equipment	442,940	442,940
Furniture and fixtures	<u>456,608</u>	<u>401,168</u>
Total cost	26,799,189	30,732,974
Less accumulated depreciation	(3,714,824)	(3,125,689)
Work in process	<u>1,616,733</u>	<u>1,000,812</u>
Net property and equipment	<u>\$ 24,701,098</u>	<u>\$ 28,608,097</u>

For the year ending December 31, 2017 and 2016, the Garden recognized depreciation expense of \$623,977 and \$322,864, respectively.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

During the year ending December 31, 2017, the Garden sold property located in Carpinteria, California that had been gifted to the Garden in 2005. The sale was for gross proceeds of \$5,000,000. The property had been on the market for 6 months, and was eventually sold to a current board member with the requirement that a conservation easement be put in place on the property that is now held by the Santa Barbara County Land Trust. The sale was performed as an arms-length transaction, reviewed by 3<sup>rd</sup> party real estate brokers as well as local Foundation board members, and was approved for a selling price that was at the estimated fair market value. The Garden recognized a \$707,978 gain on the sale of the property.

**(7) 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, 2017 or December 31, 2016.

**(8) Deferred Revenue**

Deferred revenue consists of annual memberships sold on or before December 31, 2017 and with an expiration date subsequent to December 31, 2017. The amount of deferred revenue reported is based on the number of months remaining of membership benefits remaining at December 31, 2017.

**(9) Notes Payable**

The Garden holds three notes payable.

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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

remaining outstanding balance is due. The mortgage payable at December 31, 2017 is \$847,088 .

The second note payable is a revolving-term note held by Northern Trust. The note is secured by investment securities held at Northern Trust. The note carries a variable interest rate of 2.092%, 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 \$1,200,000 and requires payment in full or renewal on or before January 2017. The balance of the note payable at December 31, 2017 is \$1,196,985. The Garden renewed the loan in January 2017 with a new expiration date of January 2018. The Garden intends to renew the note payable annually. See note 16 of these financial statements for description of refinancing of this note.

The third note is a mortgage held by Northern Trust entered into February 2017. The loan is secured by property located at 2333 Las Canoas Road, Santa Barbara. The note carries a variable interest rate of 2.092% calculated as 1% below the Wall Street Journal Prime Rate with a minimum interest rate of 2% per annum. The note required monthly interest only payments with the entire principal due February 2018. At December 31, 2017 the balance of the note was \$1,328,026. See note 16 of these financial statements for description of refinancing of this note.

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

2018	\$ 2,543,633
2018	19,575
2019	20,576
2020	21,629
2021	22,735
Thereafter	<u>743,951</u>
Total	<u>\$ 3,372,099</u>

**(10) Board Designated and Restricted Net Assets**

Board Designated Net Assets

Board designated net assets consist of the following amounts at December 31, 2017:

Quasi-endowment – education	\$ 544,527
Quasi-endowment – research and conservation	539,653
Quasi-endowment – horticulture	568,728
Quasi-endowment – general operations	<u>2,038,781</u>
Total Board Designated Net Assets	<u>\$ 3,691,689</u>

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of following amounts at December 31, 2017:

Endowment – education	\$ 466,459
Endowment – research and conservation	250,462
Endowment – horticulture	<u>331,737</u>
Subtotal – Endowment	1,048,658
Education	69,990
Research and conservation	102,286
Horticulture	706,338
Other restrictions	264,826
Future periods – pledges receivable	281,379
Capital campaign/building program*	<u>330,376</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 2,803,853</u>

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

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, 2017 are as follows:

Endowment	\$ 3,527,090
Interest in perpetual trusts	<u>1,239,936</u>
 Total Permanently Restricted Net Assets	 <u>\$ 4,767,026</u>

**(11) 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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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.

At December 31, 2017, 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, 2017, are classified in the table below in one of the three categories described above:

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Marketable Securities</b>			
Common stock	\$ 4,489,227	\$ -	\$ -
Mutual funds	7,803,050	-	-
Corporate bonds	720,549	-	-
Municipal bonds	830,861		
Cash held for long- term use	<u>781,390</u>	<u>-</u>	<u>-</u>
Total Marketable Securities	14,625,077	-	-
<b>Other non-marketable</b>			
investments	-	10,854	-
Interest in perpetual trusts	-	-	1,239,936
Interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>281,379</u>
Total	<u>\$ 14,625,077</u>	<u>\$ 10,854</u>	<u>\$ 1,521,315</u>

Financial assets carried at fair value as of December 31, 2016, 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)
<b>Marketable Securities</b>			
Common stock	\$ 1,726,104	\$ -	\$ -
Mutual funds	5,602,486	-	-
Cash held for long- term use	<u>1,320</u>	<u>-</u>	<u>-</u>
Total Marketable Securities	7,329,910	-	-
<b>Other non-marketable</b>			
investments	-	10,854	-
Interest in perpetual trusts	-	-	1,174,419
Interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>267,980</u>
Total	<u>\$ 7,329,910</u>	<u>\$ 10,854</u>	<u>\$ 1,442,399</u>

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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

	<u>Interest in Charitable Remainder Trusts</u>	<u>Interest in Perpetual Trusts</u>
Balance January 1, 2017	\$ 267,980	\$ 1,174,419
Change in value of interest in trusts	<u>13,399</u>	<u>65,517</u>
Balance December 31, 2017	<u>\$ 281,379</u>	<u>\$ 1,239,936</u>

There were no significant transfers between Level I, Level II and Level III of the fair value hierarchy during 2017.

**(12) 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 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

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

- (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, 2017 or December 31, 2016.

**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 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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Total Endowment	\$ 3,691,689	\$ 1,048,657	\$ 3,527,090	\$8,267,436

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

Changes in endowment net assets for the fiscal year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,354,687	\$ 840,859	\$ 2,242,308	\$ 6,437,854
Contributions	-	-	1,314,798	1,314,798
Investment income	694,544	469,752	1,805	1,166,101
Transfers (note 16)	-	-	(31,821)	(31,821)
Expenditures	<u>(357,542)</u>	<u>(261,954)</u>	<u>-</u>	<u>(619,496)</u>
Endowment net assets, ending of year	<u>\$ 3,691,689</u>	<u>\$ 1,048,657</u>	<u>\$ 3,527,090</u>	<u>\$ 8,267,436</u>

**(13) 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 2017 and 2016 was \$61,021 and \$56,663, respectively.

The Garden offers employee vacation which is accrued based on certain eligibility requirements and years of service. The vacation accrual balance in 2017 and 2016 was \$139,370 and \$147,303, respectively.

The Garden accrues employee wages and benefits. The balances in 2017 and 2016 were \$84,560 and \$84,199, respectively.

**(14) 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.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

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.

**(15) 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 \$312,109 and \$487,153 as of December 31, 2017 and 2016, respectively. The Garden reviews the costs annually.

**(16) Release of Permanent Restricted Net Assets**

In 2017 a donor requested funds she donated under a permanent restriction for the Japanese Teahouse at the Garden be released for use in a maintenance project for the Japanese Teahouse.

**(17) Subsequent Events**

Management has evaluated subsequent events through September 13, 2018, which is the date the financial statements were available to be issued. Management has determined with the exception of the items noted below there are no subsequent events requiring disclosure or significantly impacting disclosure have occurred.

**SANTA BARBARA BOTANIC GARDEN, INC.**  
**Notes to Financial Statements**  
**December 31, 2017**

On March 15, 2018 the Garden entered into a line of credit agreement with Montecito Bank & Trust. The line of credit provides a maximum principal amount of \$1,500,000 at an initial rate of 3.75%. The interest rate on the line of credit is variable with a floor of 2.5% and margin of .75% over the Wall Street Journal Prime Rate as published in the Wall Street Journal. The line of credit is secured by all deposits held at the bank. The line of credit expires March 15, 2023.

On January 2, 2018 the Garden renewed the two notes held by Northern Trust described in note 9 of these of these financial statements with a revolving-term note also held by Northern Trust. The terms of the new revolving-term note allow for a maximum amount of borrowing to be \$2,550,000 with an interest rate to be variable and based on the Overnight LIBOR-Base Rate plus a margin of 1.40% with a floor of 1.40%. The revolving-term note matures December 28, 2018. The revolving-term note is secured by all accounts held at Northern Trust.