



SANTA BARBARA BOTANIC GARDEN, INC.

FINANCIAL STATEMENTS

December 31, 2008



Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the Santa Barbara Botanic Garden, Inc. (the Garden), a non-profit organization, as of December 31, 2008 and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Garden's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present, in all material respects, the financial position of the Santa Barbara Botanic Garden, Inc. as of December 31, 2008 and the changes in net assets and cash flows for the year then ended in conformity with generally accepted accounting principles.

Stoltey & Associates

October 7, 2009
Los Olivos, California

SANTA BARBARA BOTANIC GARDEN
Statement of Financial Position
December 31, 2008
(with 2007 comparative totals)

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 54,759	\$ 134,184
Investments (note 2)	9,344,388	16,967,251
Accounts receivable, net	39,936	61,717
Inventory	123,313	124,618
Prepaid expenses and other assets	94,905	88,152
Total Current Assets	9,657,301	17,375,922
Non-Current Assets		
Investment in charitable remainder trusts (note 4)	330,891	315,134
Property and equipment, net (note 6)	20,331,260	19,192,996
Total Assets	\$ 30,319,452	\$ 36,884,052
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 47,506	\$ 142,930
Accrued expenses	303,435	245,371
Current portion of long term debt (note 12)	44,805	38,652
Total Current Liabilities	395,746	426,953
Long-Term Liabilities (note 12) - Note Payable	3,254,406	3,301,451
Total Liabilities	3,650,152	3,728,404
Net Assets		
Unrestricted:		
Undesignated	19,198,389	25,639,204
Designated	261,252	261,252
Temporarily restricted (note 10)	2,435,570	2,481,103
Permanently restricted (note 10)	4,774,089	4,774,089
Total Net Assets	26,669,300	33,155,648
Total Liabilities and Net Assets	\$ 30,319,452	\$ 36,884,052

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN
Statement of Activities
For the Year Ended December 31, 2008
(with 2007 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
Revenues					
Public Support					
Fundraising events - gross revenue	\$ 8,295	\$ -	\$ -	\$ 8,295	\$ 19,130
Less costs of direct benefits to donors	<u>(5,571)</u>	<u>-</u>	<u>-</u>	<u>(5,571)</u>	<u>(18,180)</u>
Net revenues from fundraising events	2,724	-	-	2,724	950
Contributions	211,520	419,082	-	630,602	1,321,494
Grants	<u>345,852</u>	<u>-</u>	<u>-</u>	<u>345,852</u>	<u>425,957</u>
Total Public Support	<u>560,096</u>	<u>419,082</u>	<u>-</u>	<u>979,178</u>	<u>1,748,401</u>
Other Revenues and Gains					
Shop and plant sales	499,330	-	-	499,330	432,258
Less cost of goods sold	<u>(238,723)</u>	<u>-</u>	<u>-</u>	<u>(238,723)</u>	<u>(247,224)</u>
Gross Profit	260,607	-	-	260,607	185,034
Memberships	216,073	-	-	216,073	198,279
Rental income	82,680	-	-	82,680	73,000
Education program fees	53,914	-	-	53,914	50,324
Admissions	285,591	-	-	285,591	279,802
Contracts	22,339	-	-	22,339	19,321
Investment income (note 2)	(4,396,052)	-	-	(4,396,052)	1,726,942
Miscellaneous revenue	<u>3,216</u>	<u>-</u>	<u>-</u>	<u>3,216</u>	<u>37,704</u>
Total Other Revenues and Gains	<u>(3,471,632)</u>	<u>-</u>	<u>-</u>	<u>(3,471,632)</u>	<u>2,570,406</u>
Total Revenue	<u>(2,911,536)</u>	<u>419,082</u>	<u>-</u>	<u>(2,492,454)</u>	<u>4,318,807</u>
Net assets released from restrictions	<u>464,615</u>	<u>(464,615)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses					
Program Expenses:					
Education	1,130,498	-	-	1,130,498	1,049,908
Living Collections	1,335,951	-	-	1,335,951	1,282,363
Research	644,911	-	-	644,911	665,634
Garden Shop	<u>226,945</u>	<u>-</u>	<u>-</u>	<u>226,945</u>	<u>224,528</u>
Total Program Services	<u>3,338,305</u>	<u>-</u>	<u>-</u>	<u>3,338,305</u>	<u>3,222,433</u>
Supporting Services:					
Management and general	467,871	-	-	467,871	488,119
Fundraising	<u>187,718</u>	<u>-</u>	<u>-</u>	<u>187,718</u>	<u>183,174</u>
Total Supporting Services	<u>655,589</u>	<u>-</u>	<u>-</u>	<u>655,589</u>	<u>671,293</u>
Total Expenses	<u>3,993,894</u>	<u>-</u>	<u>-</u>	<u>3,993,894</u>	<u>3,893,726</u>
Loss on doubtful pledges receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Change in net assets	(6,440,815)	(45,533)	-	(6,486,348)	410,081
Net assets, beginning of year	25,900,456	2,481,103	4,774,089	33,155,648	32,745,567
Net assets, ending of year	<u>\$ 19,459,641</u>	<u>\$ 2,435,570</u>	<u>\$ 4,774,089</u>	<u>\$ 26,669,300</u>	<u>\$ 33,155,648</u>

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, 2008
(with 2007 comparative totals)

	Program Expense					Supporting Services		2008 Totals	2007 Totals
	Education	Living Collections	Research	Garden Shop	Total Program	Mgmt. & General	Fundraising		
Salaries & Wages	\$ 582,779	\$ 611,839	\$ 319,680	\$ 138,008	\$ 1,652,306	\$ 213,406	\$ 122,532	\$ 1,988,244	\$ 1,824,518
Retirement Expense	16,277	31,024	27,131	8,322	82,754	10,740	4,514	98,008	88,710
Employee Benefits	50,380	56,994	21,174	7,556	136,104	49,358	12,222	197,684	188,517
Payroll Taxes	33,455	52,528	22,099	6,259	114,341	14,311	8,336	136,988	134,658
Contracted Services	41,985	120,686	100,888	6	263,565	53,231	614	317,410	284,230
Legal Fees	-	-	-	-	-	6,233	-	6,233	1,406
Accounting Fees	-	-	-	-	-	15,150	-	15,150	11,500
Equipment & Supplies	16,863	29,040	21,138	3,511	70,552	7,298	1,397	79,247	96,792
Bank Fees	55	25	110	80	270	185	55	510	(56)
Telephone	7,636	7,932	3,004	1,595	20,167	5,933	1,414	27,514	22,932
Postage	7,132	254	674	1,052	9,112	6,755	4,193	20,060	23,342
Publications	44,354	1,108	7,438	591	53,491	1,320	17,421	72,232	54,913
Travel	14,541	3,307	4,410	251	22,509	7,186	1,282	30,977	39,865
Conferences, Meetings	2,004	1,477	779	1,024	5,284	2,773	47	8,104	9,573
Professional Member.	2,894	350	839	-	4,083	3,897	119	8,099	12,965
Grounds & Maint.	64,520	250,524	32,009	2,808	349,861	6,564	1,167	357,592	449,083
Classes, Tours, Events	66,536	2,922	-	-	69,458	74	-	69,532	108,826
Research & Lab.	-	-	991	-	991	-	-	991	4,975
Library	-	-	9,987	-	9,987	-	-	9,987	9,020
Advertising & Promotion	57,018	2,161	1,523	4,881	65,583	25	8,010	73,618	47,855
Utilities	8,731	25,376	7,312	3,176	44,595	5,219	654	50,468	49,932
Insurance	18,610	24,503	10,688	9,779	63,580	3,907	1,589	69,076	69,196
Interest	50,139	69,893	25,409	24,726	170,167	42,590	-	212,757	199,175
Depreciation	44,610	44,032	27,766	13,384	129,792	11,469	2,152	143,413	161,799
Total Expenses, December 31, 2008	\$ 1,130,519	\$ 1,335,975	\$ 645,049	\$ 227,009	\$ 3,338,552	\$ 467,624	\$ 187,718	\$ 3,993,894	
Total Expenses, December 31, 2007	\$ 1,049,908	\$ 1,282,363	\$ 665,634	\$ 224,528	\$ 3,222,433	\$ 488,119	\$ 183,174		\$ 3,893,726

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, 2008
(with 2007 comparative totals)

	2008 Total	2007 Total
Cash Flows Used For Operating Activities:		
Change in net assets	\$ (6,486,348)	\$ 410,081
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	143,413	161,799
Realized and unrealized loss (gain) on investments	5,690,616	(902,173)
Permanently restricted contributions	-	(685,500)
Noncash contribution of marketable securities	(8,721)	(15,718)
Decrease/(Increase) in accounts receivable	21,781	13,435
Decrease/(Increase) in prepaid expenses and other assets	(6,753)	23,414
Decrease/(Increase) in investment in charitable remainder trust	(15,757)	(22,427)
Decrease/(Increase) in inventory	1,305	26,223
Decrease/(Increase) in pledges receivable	-	15,000
(Decrease)/Increase in accounts payable and accrued expenses	(37,360)	167,409
Net cash used for operating activities	(697,824)	(808,457)
Cash Flows Provided by (Used For) Investing Activities:		
Purchase of fixed assets	(1,281,677)	(2,803,562)
Purchase of investments	(4,409,054)	(5,062,995)
Proceeds from sale of investments	6,350,022	6,499,920
Net cash provided by (used for) investing activities	659,291	(1,366,637)
Cash Flows Provided by (Used For) Financing Activities:		
Proceeds from long-term debt	-	847,203
Payments on long-term debt	(40,892)	-
Permanently restricted contributions	-	685,500
Net cash Provided by (Used For) financing activities	(40,892)	1,532,703
Net (decrease) in cash and cash equivalents	(79,425)	(642,391)
Cash and cash equivalents at Beginning of Year	134,184	776,575
Cash and cash equivalents at Ending of Year	\$ 54,759	\$ 134,184
<u>Supplemental Cash Flow Information:</u>		
Interest paid during the year	\$ 212,757	\$ 199,175

The accompanying notes are an integral part of this financial statement

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2008

(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 Garden, which operates in Santa Barbara, is dedicated to advancing public knowledge and understanding of plant life with an emphasis on plants native to California. Its activities are supported by contributions, program fees and grants.

Revenue Recognition

The Garden has adopted the provisions of Statement of Financial Accounting Standards No. 116 (SFAS No. 116), *Accounting for Contributions Received and Contributions Made.* SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues. The statement also requires the Garden to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

The Garden recognizes revenue earned through admissions, retail sales and membership on the accrual method of accounting.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Estimates

Financial statements prepared in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates made by management include allowance for pledges receivable, depreciable lives of equipment, fair value of investments in debt and equity securities, imputed rates to discount long-term pledges receivable and allocation of functional expenses. Actual results could differ from those estimates.

Basis of Presentation

The Garden reports its financial statements in accordance with Statement of Financial Accounting Standards Board (SFAS) No. 117, *Financial Statements of Non-Profit Organizations.* Under SFAS No. 117, the Garden is required to report information regarding its financial position and activities according to three classes based on the existence and nature of donor imposed restrictions on net assets:

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Notes to Financial Statements
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Unrestricted net assets generally result from unrestricted contributions and interest and dividends less expenses incurred in providing services and fund-raising and other administrative expenses. Included within this classification are the self-balancing fund groups—operating fund, property fund, and funds designated for investment. The Board of Trustees using unrestricted funds established funds designated for investment. Income from these funds is to be used for operations in an amount equal to 5.6% of the fair market value of the investments calculated on a twelve quarter moving average. The remaining income, if any, is retained in this fund or at the Board of Trustee's discretion may be allocated for operations. At the Board of Trustee's discretion, the principal may be expended when income earned is less than 5.6% of the fair value of the investments. Restricted contributions and investment income whose restrictions are met in the same reporting period are recorded as increases to unrestricted net assets.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose.

Permanently restricted net assets are classified as such based on donor-imposed restrictions prohibiting the Garden from using the asset. Any interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase to permanently restricted net assets, temporarily restricted net assets or unrestricted net assets in conformance with any donor imposed restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Garden considers cash instruments not held at investment brokers and are not subject to donor restrictions limiting their use to long-term purposes, to be cash equivalents.

Investments

The Garden has adopted the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. SFAS No. 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of activities. The market value of mutual funds is determined by quoted rates.

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
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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 general public in the Garden's bookstore.

Property and Equipment

Property and equipment are carried at cost, or if donated, at the fair value at the date of donation. Board of Trustee designated funds used for property and equipment acquisitions are recorded as transfers to the property fund. Depreciation of property and equipment is provided using a 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.

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 requires that assets with a cost \$3,000 or more be capitalized.

Inexhaustible Collections and Books

In accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the Garden has elected to not capitalize donated botanical collections and books or recognize them as revenues or gains. SFAS No. 116 provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for and preserved; and are subject to a policy that requires the proceeds from the sales of collection items to be used to acquire other items for collections.

Donated Services

No amounts have been reflected in the accompanying financial statements for donated services. The Garden pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Garden with education and garden shop programs, and various committee assignments. The Garden receives more than 26,000 volunteer hours per year.

SANTA BARBARA BOTANIC GARDEN, INC.
Notes to Financial Statements
December 31, 2008

Income Tax Status

The Garden is a non-profit corporation other than a private foundation organized under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d) and, therefore, is subject to income tax only on unrelated business income. There was no unrelated business taxable net income for the year ended December 31, 2008.

Comparative 2007 Information and Reclassifications

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Garden's financial statements for the year ended December 31, 2007, from which the summarized information was derived. For 2008 presentation, there has been reclassification of 2007 amounts.

(2) Investments

Investments are carried at fair market value. The Garden held the following investments at December 31, 2008:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Market Value</u>
Common Stock	\$ 3,101,498	\$ 2,502,863
Mutual Funds	6,872,833	3,856,936
Corporate Bonds	1,789,473	1,592,457
US Government Securities	588,459	592,075
Other Non-Marketable Investments	<u>10,854</u>	<u>10,854</u>
Totals	<u>\$12,363,117</u>	<u>\$9,344,388</u>

Investment income consists of the following:

Dividends and interest	\$ 1,111,178
Realized gain	871,507
Unrealized loss	(6,332,135)
Investment fees	<u>(46,602)</u>
Total Investment Income	<u>\$ (4,396,052)</u>

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Notes to Financial Statements
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The Garden is exposed to credit risk for the amount of the investments in the event of non-performance of the other parties to the investment transactions; however, the Garden has never sustained a loss due to non-performance and does not anticipate any non-performance by the counter parties.

(3) Income Interest in Trusts

The Garden has beneficial interest in the income of both the Anna Blaksley Bliss Trust Fund and the Preston and Sterling Morton Fund, 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. As the fair market value of the trusts cannot be estimated, each of these trusts has been recorded at a nominal value at \$1. Total distributions from the trusts were \$9,546 for the year ended December 31, 2008.

(4) Investment in Charitable Remainder Trusts

The carrying value of the trusts is determined at the present value of the trusts' anticipated future value based on a discount rate of 5% over the estimated life of the trust. The present value of the trusts has been reported in the accompanying statement of financial position at a value of \$330,891. For the year ended December 31, 2008, the present value of the trusts increased by \$15,757. The increase in charitable remainder trusts has been reported as an increase of temporarily restricted net assets in the statement of activities.

(5) Collections

The garden has collections of botanical books, herbarium specimens and living collections. It safeguards the collection of the library in an air-conditioned space and limits access to the collection to authorized persons. 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 collection are made during research projects, exchange with other gardens, as gifts, or occasionally purchased.

Additions were made to the herbarium and living collections in the normal course of research and work by the staff. There were no sales of collections during the year ended December 31, 2008.

(6) Property and Equipment

Property and equipment at December 31, 2008 consist of the following major classifications:

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Notes to Financial Statements
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	<u>Cost/Basis</u>	<u>Estimated Useful Life</u>
Land	\$13,893,866	-
Buildings & improvements	3,318,864	5-30 years
Machinery and equipment	423,020	3-10 years
Furniture and fixtures	368,793	3-10 years
Work in process	<u>4,755,024</u>	
Total cost	<u>22,759,567</u>	
Less accumulated depreciation	<u>(2,428,307)</u>	
Net property and equipment	<u>\$ 20,331,260</u>	

For the year ending December 31, 2008, the Garden recognized depreciation expense of \$143,413.

Assets classified as work in process are not used in operations and will not be subject to depreciation until the assets are placed in service. Work in process includes \$3,880,310 of costs associated with the Garden's Vital Mission Plan. Should the Garden either decide not to go forward with the project or not obtain the required permits from the County of Santa Barbara, including a revised conditional use permit, the usefulness of these assets may be in doubt.

(7) 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, with emphasis in the area of California native flora.

Living Collections To maintain and display living plant collections of native California plants and selected species from Mediterranean regions of the world for viewing by the public and use of educators and scientists.

Research To conduct and publish scientific research on native California plants and related floras of the world with emphasis on studies that underlie the conservation of biological diversity and evolutionary and systematic botany.

Garden Shop To support garden education and community programs, exhibits and displays by selling books, maps, garden publications, educational tools and related products and items for visitor convenience and to generate an appreciation of and promote knowledge of the plant and natural sciences.

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(8) Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. The allocation of the costs is based upon hours spent or square footage occupied or other reasonable basis.

(9) Concentrations of Credit Risk

The Garden maintains its cash balances in one financial institution. The Federal Deposit Insurance Corporation insures balances up to \$250,000. At times throughout the year the Garden maintains balances in excess of the FDIC insured amount.

(10) Restricted Net Assets

Temporarily restricted net assets restricted to specific activities as of December 31, 2008 are as follows:

<u>Restriction</u>	<u>Amount</u>
Public education and exhibits	\$ 680,173
Building Fund	<u>1,755,397</u>
Total	<u>\$ 2,435,570</u>

Permanently restricted net assets of \$4,774,089 consist of endowment fund investments to be held indefinitely. 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.

(11) Retirement Plan

The Garden maintains a 403(b) tax sheltered annuity plan covering employees who meet certain minimum eligibility requirements. The plan is funded monthly based on a match up to 7% of eligible employees' compensation. The Garden's contributions in 2008 approximated \$98,000.

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Notes to Financial Statements
December 31, 2008

(12) Notes Payable

On December 6, 2006 the Garden entered into a mortgage payable totaling \$1,800,000. The proceeds of the mortgage payable were used to purchase real estate. The note carries an interest rate of 6.375% per annum and requires monthly payments of \$11,230. The note matures on January 1, 2037.

The Garden has entered into a second mortgage payable totaling \$946,057. The proceeds of the mortgage payable were used to purchase real estate. The note carries an interest rate of 6.375% per annum and requires monthly payments of \$6,375. The note matures on December 3, 2011.

On February 1, 2007 the Garden entered into a mortgage secured by the Tunnel Road property in the amount of \$618,750. The note requires monthly payments of \$3,860. The note carries an interest rate of 6.375% per annum. The note matures February 1, 2037.

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

2009	\$	44,805
2010		47,746
2011		942,281
2012		11,940
2013		40,430
Thereafter		<u>2,212,009</u>
 Total		 <u>\$ 3,299,211</u>

(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 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)

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Notes to Financial Statements
December 31, 2008

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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 as of December 31, 2008.

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.

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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 5.6% of the prior 12 quarter rolling average endowment portfolio balance.

Endowment net asset composition as of December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 4,570,299	\$ -	\$ 4,774,089	\$9,344,388

Changes in endowment net assets for the fiscal year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 12,193,162	\$ -	\$ 4,774,089	\$ 16,967,251
Investment return:				
Net depreciation (realized and unrealized)	(5,460,628)	-	-	(5,460,628)
Investment income	<u>1,046,884</u>	<u>-</u>	<u>-</u>	<u>1,046,884</u>
Total investment return	(4,413,744)	-	-	(4,413,744)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>(3,209,119)</u>	<u>-</u>	<u>-</u>	<u>(3,209,119)</u>
Endowment net assets, ending of year	<u>\$ 4,570,299</u>	<u>\$ -</u>	<u>\$ 4,774,089</u>	<u>\$ 9,344,388</u>

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(14) Assets Valued at Fair Value

Fair Value Measurements at December 31, 2008 are summarized as follows:

	Quoted Prices In Active Markets For <u>Identical Assets</u>	Significant Other Observable <u>Inputs</u>	Significant Unobservable <u>Inputs</u>
Marketable securities Held For trading Purposes	\$ 8,555,185	\$ -	\$ -
Charitable Remainder Trusts	<u>-</u>	<u>-</u>	<u>330,891</u>
Total	<u>\$ 8,555,185</u>	<u>\$ -</u>	<u>\$ 330,891</u>

Changes in Fair Value Measurement Using Significant Unobservable Inputs are summarized as follows:

	<u>Charitable Remainder Trusts</u>
Beginning Balance	\$ 315,134
Total Gains(Losses) Included In Changes in Net Assets	<u>15,757</u>
Ending Balance	<u>\$ 330,891</u>
The Amount of Total Gains For The Period Included In Changes In Net Assets Still Held At December 31, 2008	<u>\$ 15,757</u>

(15) Subsequent Event

In June 2009 the Santa Barbara area experienced a wild fire commonly known as the Jesusita Fire. The fire negatively impacted the Garden. Management believes nearly all losses incurred during the fire will be fully covered by the Garden's insurance policy.