

STANLEY SMITH HORTICULTURAL TRUST

FINANCIAL STATEMENTS

December 31, 2023 and 2022



STANLEY SMITH HORTICULTURAL TRUST

T A B L E O F C O N T E N T S

	Page(s)
Independent Auditors' Report	1–2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6–14



INDEPENDENT AUDITORS' REPORT

To the Trustees of
Stanley Smith Horticultural Trust

Opinion

We have audited the financial statements of Stanley Smith Horticultural Trust, which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Stanley Smith Horticultural Trust as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Stanley Smith Horticultural Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Stanley Smith Horticultural Trust's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

To the Trustees of
Stanley Smith Horticultural Trust

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Stanley Smith Horticultural Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Stanley Smith Horticultural Trust's ability to continue as a going concern for a reasonable period of time.

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

A handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a large loop, and the "P" and "M" are also stylized.

Long Beach, California
August 29, 2024

STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 20,306	\$ 20,212
Investments, at fair value	16,404,368	15,325,623
Dividends, interest and capital gain receivable	20,731	15,508
Prepaid and other current assets	<u>35,942</u>	<u>25,328</u>
Total assets	<u>\$ 16,481,347</u>	<u>\$ 15,386,671</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expense	\$ 34,570	\$ 49,431
Deferred federal excise tax liability	<u>19,543</u>	<u>-</u>
Total liabilities	54,113	49,431
Net assets without donor restrictions	<u>16,427,234</u>	<u>15,337,240</u>
Total liabilities and net assets	<u>\$ 16,481,347</u>	<u>\$ 15,386,671</u>

STANLEY SMITH HORTICULTURAL TRUST
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2023 and 2022

	2023	2022
Net investment gain (loss):		
Realized (loss) from the sale of investments, net	\$ (27,672)	\$ (1,641,680)
Unrealized gain (loss) on investments held, net	1,679,541	(2,622,076)
Dividends, interest and other income, net of investment expenses	325,804	966,095
Net investment gain (loss) before federal excise and other tax expense (benefit)	1,977,673	(3,297,661)
Federal excise and other tax expense (benefit)	33,606	(39,795)
Net investment gain (loss)	1,944,067	(3,257,866)
Expenses:		
Grants and grants management	771,129	786,522
General and administrative	82,944	88,474
Total expenses	854,073	874,996
Change in net assets	1,089,994	(4,132,862)
Net assets without donor restrictions, beginning of year	15,337,240	19,470,102
Net assets without donor restrictions, end of year	\$ 16,427,234	\$ 15,337,240

STANLEY SMITH HORTICULTURAL TRUST

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,089,994	\$ (4,132,862)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(1,709,232)	4,263,756
Deferred federal excise tax	19,543	(39,178)
Changes in operating assets and liabilities:		
Prepaid and other current assets	(10,614)	(24,797)
Dividends, interest, and capital gains receivable	(5,223)	(4,953)
Accounts payable and accrued expenses	(14,861)	(3,164)
Federal excise and other taxes payable	-	(12,875)
	<u>(630,393)</u>	<u>45,927</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	7,631,592	7,140,586
Purchase of investments	(7,001,105)	(7,183,901)
	<u>630,487</u>	<u>(43,315)</u>
Net cash provided by (used in) investing activities		
Change in cash	94	2,612
Cash, beginning of year	<u>20,212</u>	<u>17,600</u>
Cash, end of year	<u>\$ 20,306</u>	<u>\$ 20,212</u>
Supplemental disclosure of cash flow information:		
Federal excise and other taxes paid	<u>\$ 20,000</u>	<u>\$ 32,508</u>

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

1. Organization

Stanley Smith Horticultural Trust (the "Trust") was established in 1970 for the purpose of making grants to support research and education in ornamental horticulture, primarily in North and South America, Australia, and New Zealand. The Trust has been classified by the Internal Revenue Service ("IRS") as a private foundation, as defined in Section 509(a) of the Internal Revenue Code ("IRC"). The Trust may distribute principal or income, or both, for the purposes defined in the Trust agreement. The Trust complied with the IRS requirement to spend or distribute for charitable purposes a minimum of 5% of the average fair market value of its investment assets for the preceding year for the years ended December 31, 2023 and 2022. The Trust is supported through investment income.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Net Assets without Donor Restriction: Net assets without donor restrictions consist of the resources of the Trust, which have not been restricted by a donor for a restricted use or time.

Net Assets with Donor Restriction: Net assets with donor restrictions represent contributions whose use by the Trust is limited in accordance with the restrictions imposed by donors. These restrictions may expire when the stipulated time has passed or may be satisfied by the actions of the Trust according to the stipulations made by the donors.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The Trust had no cash equivalents as of December 31, 2023 and 2022.

Concentration of Credit Risk

The Trust maintains cash balances with multiple banks, both directly and under a bank deposit program. Those cash balances are insured by the Federal Deposit Insurance Corporation for up to \$250,000 per insured bank. The Trust also may hold cash in a brokerage account, where it is insured by the Securities Investor Protection Corporation up to \$500,000 and by Lloyd's of London up to an additional \$900,000. Cash balances may at times exceed these limits. To date, the Trust has not experienced any losses in these accounts.

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

2. Summary of Significant Accounting Policies, continued

Investments

Investments are stated at quoted market prices or estimated fair values. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned. Indirect investment expenses of \$9,022 and \$8,963 are included in dividends, interest and other income (loss), net of investment expenses on the statements of activities and changes in net assets for the years ended December 31, 2023 and 2022, respectively.

Fair Value Measurements

The Trust carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. In addition, the Trust reports certain investments using the Net Asset Value ("NAV") per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Receivables and liabilities are measured at carrying value which approximates fair value due to their short maturity.

U.S. GAAP establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The following is a brief description of these three levels:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets, quoted prices for identical or similar assets in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset.

Level 1 investments have been valued at the closing price on the active market on which the securities are traded as of December 31, 2023 and 2022.

Covered Calls

The use of call options is a part of the Trust's investment strategy. Covered calls are recorded at fair value and generally expire within one to three months from the original dates. Cash flows from covered calls are classified as an investing activity on the statements of cash flows.

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

2. Summary of Significant Accounting Policies, continued

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Trustees or management in certain cases. There were no conditional or multi-year promises to give for the years ended December 31, 2023 and 2022.

Income Taxes

The Trust is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the IRC and from the California franchise and/or income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Trust maintains its accounts and files its tax returns using the accrual method of accounting.

In December 2019, the Consolidated Appropriations Act (the “2020 Act”) was enacted. The 2020 Act includes a number of changes to existing United States of America (“U.S.”) tax laws that impact the Trust, most notably a flat excise tax of 1.39% will be applied to net investment income for tax years beginning after December 31, 2019. The Trust paid the 1.39% rate for the years ended December 31, 2023 and 2022.

Risks and Uncertainties

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment values reported in the statements of financial position.

Current Expected Credit Losses (“CECL”)

On January 1, 2023, the Trust adopted Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and all related subsequent amendments, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Similar financial assets are grouped into separate pools based on unique financial characteristics, and an allowance is calculated for each pool. The Trust determined that the impact of the adoption of this accounting guidance on its financial statements is considered immaterial.

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

3. Fair Value Measurements and Investments

The following table presents the Trust's investments measured at fair value on a recurring basis as of December 31, 2023:

December 31, 2023	Quoted Prices in Active Markets (Level 1)	Total
U.S. equity funds:		
Exchange traded funds	\$ 6,107,405	\$ 6,107,405
Mutual funds	1,482,666	1,482,666
Total U.S. equity funds	7,590,071	7,590,071
International equity funds:		
Exchange traded funds	1,150,783	1,150,783
Mutual funds	507,292	507,292
Total international equity funds	1,658,075	1,658,075
Marketable alternatives	208,635	208,635
Money market funds	784,532	784,532
U.S. fixed income mutual funds	3,222,073	3,222,073
Total investments by fair value level	\$ 13,463,386	13,463,386
Investments measured at the net asset value ("NAV"):		
Real estate funds		1,072,448
Hedge fund		1,868,534
Total investments		\$ 16,404,368

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

3. Fair Value Measurements and Investments, continued

The following table presents the Trust's investments measured at fair value on a recurring basis as of December 31, 2022:

December 31, 2022	Quoted Prices in Active Markets (Level 1)	Total
U.S. common stocks:		
Consumer discretionary	\$ 210,380	\$ 210,380
Financials	399,996	399,996
Industrials	294,630	294,630
Information technology	379,819	379,819
Total U.S. common stocks	1,284,825	1,284,825
U.S. equity funds:		
Exchange traded funds	4,189,034	4,189,034
Mutual funds	1,589,898	1,589,898
Total U.S. equity funds	5,778,932	5,778,932
International equity funds:		
Exchange traded funds	1,080,057	1,080,057
Mutual funds	516,361	516,361
Total international equity funds	1,596,418	1,596,418
Marketable alternatives	196,655	196,655
Money market funds	838,505	838,505
U.S. fixed income mutual funds	2,732,932	2,732,932
Total investments by fair value level	\$ 12,428,267	12,428,267
Investments measured at the net asset value ("NAV"):		
Real estate funds		1,101,361
Hedge fund		1,795,995
Total investments		\$ 15,325,623

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

3. Fair Value Measurements and Investments, continued

The Trust uses the NAV to determine the fair value of all the underlying investments which do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company, or have attributes of an investment company.

The following tables list the investment in the real estate and hedge funds as of December 31, 2023 and 2022:

December 31, 2023					
Investment	Strategy	NAV in Fund	Number of Funds	Remaining Life (in years)	Unfunded Commitments
Real estate funds	Domestic real estate related assets	\$ 1,072,448	3	1-7	\$ 976,566
Hedge fund	U.S. exchange listed equity securities	<u>1,868,534</u>	1	N/A	<u>-</u>
		<u>\$ 2,940,982</u>			<u>\$ 976,566</u>

December 31, 2022					
Investment	Strategy	NAV in Fund	Number of Funds	Remaining Life (in years)	Unfunded Commitments
Real estate funds	Domestic real estate related assets	\$ 1,101,361	3	2-3	\$ 1,207,072
Hedge fund	U.S. exchange listed equity securities	<u>1,758,114</u>	1	N/A	<u>-</u>
		<u>\$ 2,859,475</u>			<u>\$ 1,207,072</u>

The Trust is a limited partner in SFF Realty Fund IV, L.P. and agrees to contribute \$750,000 as capital commitment and the term of Partnership lasts until October 2030. SFF Realty Fund IV, L.P. can make capital calls as determined by the General Partner for investment costs or partnership expenses. Capital call commitments of \$23,625 and \$15,000 were funded for the years ended December 31, 2023 and 2022, respectively. SFF Realty Fund IV, L.P. made capital calls of \$62,250 in January 2024 and \$26,269 in April 2024.

In March 2024, the Trust entered into an agreement of limited partnership with Virtu Joint Venture Opportunity Fund, L.P. and agrees to contribute \$500,000 as capital commitment. Virtu Joint Venture Opportunity Fund, L.P. made capital calls of \$125,000 in April 2024 and \$375,000 in July 2024.

As a limited partner in these closed-end real estate funds, the Trust may not withdraw from either real estate fund prior to the fund's dissolution. The hedge fund permits monthly withdrawals with 45 days prior notice.

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

4. Net Assets

Net assets on the statements of financial position are comprised of capital contributed to the Trust and the increase in value through investment activity. Net assets are all without donor restrictions and are comprised of the following since inception through December 31:

	2023	2022
Contributed capital	\$ 1,600,300	\$ 1,600,300
Contributions	5,479,274	5,479,274
Grants paid and payable, net of returned grants	(24,197,614)	(23,545,843)
Increase in value since inception of the Trust, net of operating expenses	33,545,274	31,803,509
Total net assets	<u>\$ 16,427,234</u>	<u>\$ 15,337,240</u>

5. Functional Expense Allocation

The indirect costs associated with certain expenses have been allocated on a functional basis in the statements of activities and changes in net assets. Certain expenses are not directly identifiable with one specific function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include the administrative fees, salaries, professional and consultant fees, trustee fees, and other expenses, all of which are allocated on the basis of estimates of time and use.

The expenses were allocated as follows for the years ended December 31:

	2023			2022		
	Grants and Grants Management	General and Administrative	Total	Grants and Grants Management	General and Administrative	Total
Grants	\$ 651,771	\$ -	\$ 651,771	\$ 661,087	\$ -	\$ 661,087
Administrative fees	23,435	8,035	31,470	22,753	7,801	30,554
Salaries	80,909	-	80,909	81,188	-	81,188
Professional and consultants	3,639	66,130	69,769	3,642	69,689	73,331
Legal fees	-	8,000	8,000	-	10,205	10,205
Trustee fees	7,208	779	7,987	7,208	779	7,987
Travel and meetings	3,498	-	3,498	6,049	-	6,049
Other	669	-	669	4,595	-	4,595
	<u>\$ 771,129</u>	<u>\$ 82,944</u>	<u>\$ 854,073</u>	<u>\$ 786,522</u>	<u>\$ 88,474</u>	<u>\$ 874,996</u>

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

6. Payout Requirement

The IRC requires private foundations to annually disburse approximately 5% of the market value of investment assets, less the federal excise tax, for the current year by the end of next year. This payout requirement may be satisfied by payments for grants, program-related investments, direct conduct of charitable activities, and certain administrative expenses. The Trust has met the required minimum distributions, but has undistributed income amounts that must be distributed before the end of the next fiscal year of approximately \$471,000 and \$498,000 as of December 31, 2023 and 2022, respectively.

7. Federal Excise and Other Tax Expense (Benefit)

Federal excise and other tax expense (benefit) was calculated at a rate of 1.39% for the years ended December 31, 2023 and 2022, and is included in the statements of activities and changes in net assets as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Federal excise and other tax expense (benefit):		
Current federal excise	\$ 11,543	\$ (2,979)
Deferred federal excise	19,543	(39,178)
UBIT	(3,165)	(2,903)
Foreign tax	<u>5,685</u>	<u>5,265</u>
Total federal excise and other tax expense (benefit)	<u>\$ 33,606</u>	<u>\$ (39,795)</u>

STANLEY SMITH HORTICULTURAL TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

8. Liquidity

The Trust has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet one year of normal operating expenses, which are, on average, approximately \$1,000,000. The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Trust invests cash in excess of daily requirements in various short-term investments, including short-term treasury instruments. Certain investments, including private equity investments, are subject to contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Trust has the following financial assets available to meet cash needs for general expenditures within one year as of December 31:

	2023	2022
Cash	\$ 20,306	\$ 20,212
Investments, at fair value	16,404,368	15,325,623
Dividends, interest, and capital gains receivable	20,731	15,508
Total financial assets	16,445,405	15,361,343
Less: investments in real estate funds	(1,072,448)	(1,101,361)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,372,957</u>	<u>\$ 14,259,982</u>

9. Related Parties

The Trust permits the hiring of a trustee in a professional capacity and the payment of reasonable compensation for those services. A trustee of the Trust is an owner of the company that provides investment management services to the Trust. The investment management company was paid investment advisor fees of \$96,269 and \$101,320 for the years ended December 31, 2023 and 2022, respectively.

The Trust is in an agreement through the end of 2025 to receive administrative services from another related party trust which shares one trustee with the Trust. The Trust recognized \$33,478 of expenses under this agreement for the year ended December 31, 2023 and \$32,504 for the year ended December 31, 2022, under a preceding agreement.

A trustee provided services as a grants director for the Trust through March 31, 2022. Fees to the grants director were \$16,500 for the year ended December 31, 2022.

For the years ended December 31, 2023 and 2022, the trustees were paid trustee fees totaling \$15,000, which are allocated between grants management, general and administrative, and investment-related expenses on the statements of activities and changes in net assets.

10. Subsequent Events

The Trust has evaluated all events and transactions that occurred after December 31, 2023 up through August 29, 2024, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred outside the normal course of operations which would require additional disclosure or adjustment.