



**GANNA WALSKA LOTUSLAND**

FINANCIAL STATEMENTS

DECEMBER 31, 2015



## **INDEPENDENT AUDITOR'S REPORT**

Audit Committee of the Board of Trustees  
Ganna Walska Lotusland

We have audited the accompanying financial statements of Ganna Walska Lotusland (a non-profit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows 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 of 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 Ganna Walska Lotusland as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Organization's 2014 financial statements, and our report dated July 29, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,  
Turner & Morrisset  
June 17, 2016

**GANNA WALSKA LOTUSLAND**

**Statement of Financial Position**

December 31, 2015

(With Summarized Information for 2014)

<i>Assets</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
<i>Current Assets</i>					
Cash and cash equivalents	\$ 452,161	\$ -	\$ -	\$ 452,161	\$ 569,778
Inventories	56,934	-	-	56,934	57,156
Pledges receivable	-	50,000	56,000	106,000	89,000
Other receivables	250	-	-	250	-
Prepaid expenses	72,749	-	-	72,749	40,726
<b>Total current assets</b>	<b>582,094</b>	<b>50,000</b>	<b>56,000</b>	<b>688,094</b>	<b>756,660</b>
<i>Investments</i>	9,208,644	378,996	3,027,682	12,615,322	13,851,707
<i>Property and equipment</i>	5,786,631	-	-	5,786,631	5,798,548
<b>Total assets</b>	<b>\$ 15,577,369</b>	<b>\$ 428,996</b>	<b>\$ 3,083,682</b>	<b>\$ 19,090,047</b>	<b>\$ 20,406,915</b>
 <i>Liabilities and Net Assets</i>					
<i>Liabilities</i>					
Accounts payable	\$ 123,281	\$ -	\$ -	\$ 123,281	\$ 52,089
Accrued liabilities	172,807	-	-	172,807	152,051
<b>Total liabilities</b>	<b>296,088</b>	<b>-</b>	<b>-</b>	<b>296,088</b>	<b>204,140</b>
<i>Net Assets</i>					
Unrestricted					
Board designated for Lotus Society	511,992	-	-	511,992	529,934
Other unrestricted net assets	14,769,289	-	-	14,769,289	15,881,791
	15,281,281	-	-	15,281,281	16,411,725
Temporarily restricted	-	428,996	-	428,996	797,618
Permanently restricted	-	-	3,083,682	3,083,682	2,993,432
<b>Total net assets</b>	<b>15,281,281</b>	<b>428,996</b>	<b>3,083,682</b>	<b>18,793,959</b>	<b>20,202,775</b>
	<b>\$ 15,577,369</b>	<b>\$ 428,996</b>	<b>\$ 3,083,682</b>	<b>\$ 19,090,047</b>	<b>\$ 20,406,915</b>

**GANNA WALSKA LOTUSLAND**

**Statement of Activities**

Year Ended December 31, 2015

(With Summarized Information for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
<b>Revenues, Gains and Other Support</b>					
Contributions and grants	\$ 456,866	\$ 316,977	\$ 90,250	\$ 864,093	\$ 1,975,410
Membership contributions	514,657	-	-	514,657	444,200
Admission fees	435,734	-	-	435,734	411,808
Garden shop	146,203	-	-	146,203	142,123
Investment income (loss)	(294,128)	(120,826)	-	(414,954)	214,619
Public programs	124,831	-	-	124,831	70,276
Other	51,119	-	-	51,119	18,681
Net assets transferred/released from restrictions	564,773	(564,773)	-	-	-
Special events:					
Special events - gross	667,142	-	-	667,142	558,755
Direct special event costs	(255,300)	-	-	(255,300)	(260,437)
Net special event proceeds	411,842	-	-	411,842	298,318
<b>Total revenues, gains, and other support</b>	<b>2,411,897</b>	<b>(368,622)</b>	<b>90,250</b>	<b>2,133,525</b>	<b>3,575,435</b>
<b>Expenses</b>					
Garden operations and plant collections	2,202,468	-	-	2,202,468	1,906,117
Management and general	641,994	-	-	641,994	565,835
Fundraising	697,879	-	-	697,879	590,840
<b>Total expenses</b>	<b>3,542,341</b>	<b>-</b>	<b>-</b>	<b>3,542,341</b>	<b>3,062,792</b>
<b>Increase (decrease) in net assets</b>	<b>(1,130,444)</b>	<b>(368,622)</b>	<b>90,250</b>	<b>(1,408,816)</b>	<b>512,643</b>
<b>Net assets, beginning of year</b>	<b>16,411,725</b>	<b>797,618</b>	<b>2,993,432</b>	<b>20,202,775</b>	<b>19,690,132</b>
<b>Net assets, end of year</b>	<b>\$ 15,281,281</b>	<b>\$ 428,996</b>	<b>\$ 3,083,682</b>	<b>\$ 18,793,959</b>	<b>\$ 20,202,775</b>

**GANNA WALSKA LOTUSLAND**  
**Statement of Functional Expenses**  
Year Ended December 31, 2015  
(With Summarized Information for 2014)

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total 2015</u>	<u>Total 2014</u>
	<u>Garden Operations and Plant Collections</u>	<u>Management and General</u>	<u>Fundraising</u>			
Salaries and wages	\$ 1,050,345	\$ 278,548	\$ 303,347		\$ 1,632,240	\$ 1,603,186
Payroll taxes and benefits	338,505	99,607	98,296		536,408	471,012
Total salaries and benefits	<u>1,388,850</u>	<u>378,155</u>	<u>401,643</u>		<u>2,168,648</u>	<u>2,074,198</u>
Professional services	654	126,254	18,883		145,791	68,195
General administrative expenses	104,275	64,458	175,240		343,973	279,351
Facilities	230,564	10,038	1,763		242,365	164,246
Insurance	14,334	5,008	3,679		23,021	25,187
Agricultural materials and supplies	129,354	65	680		130,099	105,606
Public programs and education	78,686	510	25,020		104,216	21,766
Public relations, advertising, and promotion	14,383	2,450	30,522		47,355	11,289
Garden shop	83,767	-	-		83,767	71,701
Depreciation	157,601	55,056	40,449		253,106	241,253
	<u>\$ 2,202,468</u>	<u>\$ 641,994</u>	<u>\$ 697,879</u>		<u>\$ 3,542,341</u>	<u>\$ 3,062,792</u>

**GANNA WALSKA LOTUSLAND**  
**Statement of Cash Flows**  
Year Ended December 31, 2015  
(With Summarized Information for 2014)

	<b>2015</b>	<b>2014</b>
<b><i>Cash flows from operating activities</i></b>		
Increase (decrease) in net assets	\$ (1,408,816)	\$ 512,643
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation	253,106	241,253
Net realized (gain) loss on investments	99,455	(166,493)
Net decrease in unrealized gain on investments	674,839	312,132
Contribution of securities	(10,385)	(9,524)
Less contributions restricted for endowment	(90,250)	(1,065,000)
Change in endowment funds receivable	48,000	-
(Increase) decrease in:		
Inventories	222	(14,007)
Pledges receivable	(17,000)	(39,950)
Other assets	(32,273)	16,893
Increase (decrease) in:		
Accounts payable	71,192	12,859
Accrued liabilities	20,756	(16,229)
	<b><i>Net cash used by operating activities</i></b>	<b><i>(391,154)</i></b>
	<b><i>(391,154)</i></b>	<b><i>(215,423)</i></b>
<b><i>Cash flows from financing activities</i></b>		
Collection of contributions restricted for investment in endowment	42,250	1,065,000
<b><i>Cash flows from investing activities</i></b>		
Purchase of property and equipment	(241,189)	(150,368)
Purchase of investments	(2,039,035)	(4,176,990)
Proceeds from sales of investments	2,511,511	3,545,808
	<b><i>Net cash provided (used) by investing activities</i></b>	<b><i>(781,550)</i></b>
	<b><i>231,287</i></b>	<b><i>(781,550)</i></b>
Net increase (decrease) in cash and cash equivalents	(117,617)	68,027
<b><i>Cash and cash equivalents, beginning of year</i></b>	<b><i>569,778</i></b>	<b><i>501,751</i></b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b><i>\$ 452,161</i></b>	<b><i>\$ 569,778</i></b>

**GANNA WALSKA LOTUSLAND**  
**Notes to Financial Statements**  
December 31, 2015  
(With Summarized Information for 2014)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Organization*

Ganna Walska Lotusland (the Organization) is a non-profit organization founded by Madame Ganna Walska to assume ownership and operation of her 37-acre estate, known as Lotusland, located in Santa Barbara, California. The Organization's mission is to preserve and enhance plant collections, foster and increase knowledge of rare plants and contribute to conservation efforts worldwide. The Organization began operations in 1985. The land use permit, issued by the County of Santa Barbara, limits the number of visitors to Lotusland to 15,000 regular visitors each year. The Organization's activities are supported by investment income, contributions, grants, program fees and membership contributions.

*Financial Statement Presentation*

Accounting principles generally accepted in the United States of America (GAAP) require that the Organization report information regarding its financial position and activities according to three classes of net assets based on the existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets generally result from unrestricted contributions, membership contributions, admission fees, and investment income less expenses incurred in providing services, fundraising and other administrative expenses.

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. Temporarily restricted net assets also include unrestricted investment income on permanently restricted assets where the income has not yet been appropriated for expenditure. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. The unrealized gains and investment income on funds not restricted by the donor are 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 UPMIFA. (Note 4)



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Prior-Year Summarized Information*

The financial statements include certain prior-year summarized comparative information in total but not broken out by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014 from which the summarized information was derived.

### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds with an original maturity of three months or less, and excludes cash and cash equivalents held by investment custodians.

### *Inventories*

Inventories consist primarily of books as well as other items available for sale to the general public in the gift shop. Inventories are valued at cost on a first-in, first-out basis. The cost at December 31, 2015 and 2014 is not in excess of market value.

### *Pledges Receivable*

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible pledges receivable at December 31, 2015 and 2014, respectively. Pledges receivable are due in each future respective year as follows:

2016	\$ 47,000
2017	37,000
2018	12,000
2019	<u>10,000</u>
	<u>\$ 106,000</u>

Pledges receivable consist primarily of promises from individuals and organizations within Southern California.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Investments*

Investments are carried at fair value. Dividends and interest income are shown net of investment advisory fees of approximately \$67,600 and \$64,000 for the years ended December 31, 2015 and 2014, respectively.

### *Fair Value Measurements*

Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures* issued by the Financial Accounting Standards Board (FASB) defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Pursuant to ASC 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Cash:* Valued at face value (Level 1)

*Cash equivalents – money market funds:* Valued at face value (Level 1)

*Mutual and exchange traded funds:* Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Property and Equipment*

Property and equipment are carried at cost, or if acquired by gift, at the estimated fair value on the date of donation. Expenditures for land improvements and major renewals that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of property and equipment as follows:

	<u>Years</u>
Land improvements	10-40
Buildings and structures	10-40
Furniture and equipment	3-20

### *Collections*

In accordance with GAAP, the Organization does not capitalize donated or purchased collections or recognize donated collections as revenues or gains. GAAP 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, and are protected, kept unencumbered, cared for, and preserved and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

### *Membership Contributions*

Membership contributions are recorded as revenue when received.

### *Contributed Assets*

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Contributed Services*

The Organization recognizes contribution revenue for specialized services that would otherwise be purchased by the Organization in an amount equal to the fair value of those services. The following amounts were contributed and recognized as revenue in 2015:

<u>Service Donated</u>	<u>Fair Value</u>	<u>Purpose</u>
Accounting services	\$ 4,300	General

The following amounts were contributed and recognized as revenue in 2014:

<u>Service Donated</u>	<u>Fair Value</u>	<u>Purpose</u>
Accounting services	\$ 8,700	General

In addition, a substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs as docents, in the gift shop and several other areas. In 2015 and 2014, respectively, 258 and 234 volunteers donated 16,658 and 16,602 hours in support of the Organization's program services and fundraising activities, valued at an estimated \$392,462 and \$383,008 (the value of an hour of volunteer time is calculated annually by the Independent Sector). No amounts have been recorded in these financial statements for volunteer services, as they do not meet the criteria requisite under GAAP.

### *Functional Expenses*

Direct expenses are charged to the appropriate program or supporting function. Indirect expenses have been allocated to programs, management and general, and fundraising based on salaries, square footage, or total direct costs.

### *Tax Exempt Status*

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Uncertain Tax Positions*

Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization files tax returns in the U.S. federal jurisdiction and in the state of California. The Organization's tax returns from the year 2012 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2011 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization had no unrecognized tax benefits related to tax positions taken during the years ended December 31, 2015 and 2014 or for prior periods.

### *Use of Estimates*

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### *Subsequent Events*

Management has evaluated subsequent events through June 17, 2016, the date that the financial statements were available to be issued.

## 2. INVESTMENTS

Investments consist of the following as of:

<u>December 31, 2015</u>	<u>Cost</u>	<u>Fair Value (Level 1)</u>	<u>Excess (Deficit) of Fair Value over Cost</u>
Cash equivalents	\$ 452,204	\$ 452,204	\$ -
U.S. bond mutual funds	4,603,453	4,559,894	(43,559)
Int'l bond mutual funds	530,553	514,444	(16,109)
U.S. equity mutual funds	2,706,959	3,096,870	389,911
Int'l equity mutual funds	3,137,230	2,971,183	(166,047)
U.S. exchange traded funds	775,462	638,200	(137,262)
Int'l exchange traded funds	390,234	382,527	(7,707)
	<u>\$ 12,596,095</u>	<u>\$ 12,615,322</u>	<u>\$ 19,227</u>

## 2. INVESTMENTS (Cont.)

December 31, 2014	Cost	Fair Value (Level 1)	Excess (Deficit) of Fair Value over Cost
Cash equivalents	\$ 544,978	\$ 544,978	\$ -
U.S. bond mutual funds	5,364,265	5,456,042	91,777
Int'l bond mutual funds	655,463	695,589	40,126
U.S. equity mutual funds	2,596,634	3,090,003	493,369
Int'l equity mutual funds	3,381,668	3,495,495	113,827
U.S. exchange traded funds	329,807	281,311	(48,496)
Int'l exchange traded funds	<u>284,826</u>	<u>288,289</u>	<u>3,463</u>
	<u>\$ 13,157,641</u>	<u>\$ 13,851,707</u>	<u>\$ 694,066</u>

Investment income (loss) consists of the following for the years ended December 31,:

	2015	2014
Interest and dividends, net	\$ 359,340	\$ 360,258
Net realized gain (loss)	(99,455)	166,493
Net decrease in unrealized gain	<u>(674,839)</u>	<u>(312,132)</u>
	<u>\$ (414,954)</u>	<u>\$ 214,619</u>

## 3. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows at December 31,:

	2015	2014
Land	\$ 3,418,370	\$ 3,418,370
Land improvements	2,854,443	2,634,428
Buildings and structures	3,058,553	3,048,280
Furniture and equipment	<u>815,701</u>	<u>804,800</u>
	10,147,067	9,905,878
	<u>(4,360,436)</u>	<u>(4,107,330)</u>
	<u>\$ 5,786,631</u>	<u>\$ 5,798,548</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was approximately \$253,100 and \$241,300, respectively.

#### 4. ENDOWMENT FUNDS

Endowment funds and related income restrictions are as follows at December 31,:

	Income Restriction	2015		
		Unrestricted	Temporarily Restricted	Permanently Restricted
Lotus Society fund	None	\$ 511,992	\$ 25,905	\$ 892,362
Topiary Garden Endowment fund	Topiary Garden	-	-	1,000,000
Blue Garden Endowment fund	Blue Garden	-	-	1,000,000
Theater Garden Endowment fund	Theater Garden	-	-	77,765
Lotus Garden Endowment fund	Lotus Garden	-	-	50,000
Internship Fellowship fund	Internship	-	3,731	12,055
Cactus Garden Endowment fund	Cactus Garden	-	-	51,500
Total endowment funds		<u>\$ 511,992</u>	<u>\$ 29,636</u>	<u>\$ 3,083,682</u>

	Income Restriction	2014		
		Unrestricted	Temporarily Restricted	Permanently Restricted
Lotus Society fund	None	\$ 529,934	\$ 131,118	\$ 872,112
Topiary Garden Endowment fund	Topiary Garden	-	1,735	1,000,000
Blue Garden Endowment Fund	Blue Garden	-	538	1,000,000
Theater Garden Endowment fund	Theater Garden	-	809	77,765
Internship Fellowship fund	Internship	-	4,139	12,055
Cactus Garden Endowment fund	Cactus Garden	-	457	31,500
Total endowment funds		<u>\$ 529,934</u>	<u>\$ 138,796</u>	<u>\$ 2,993,432</u>

#### **4. ENDOWMENT FUNDS (Cont.)**

The Organization's endowment funds consist of seven funds established to support a variety of purposes. Endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees 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 Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the 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 Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The unrealized gains and endowment investment income on funds not restricted by the donor are 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 UPMIFA. In accordance with UPMIFA, the Organization 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 Organization 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 Organization
- (7) The investment policies of the Organization



#### 4. ENDOWMENT FUNDS (Cont.)

Endowment net asset composition by type of fund consists of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 29,636	\$ 3,083,682	\$ 3,113,318
Board-designated endowment funds	<u>511,992</u>	<u>-</u>	<u>-</u>	<u>511,992</u>
	<u>\$ 511,992</u>	<u>\$ 29,636</u>	<u>\$ 3,083,682</u>	<u>\$ 3,625,310</u>

Changes in endowment net assets by type of fund consist of the following for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 529,934</u>	<u>\$ 138,796</u>	<u>\$ 2,993,432</u>	<u>\$ 3,662,162</u>
Investment return:				
Investment income	15,228	90,374	-	105,602
Net depreciation of investments (realized and unrealized)	<u>(33,170)</u>	<u>(211,200)</u>	<u>-</u>	<u>(244,370)</u>
Total investment return	<u>(17,942)</u>	<u>(120,826)</u>	<u>-</u>	<u>(138,768)</u>
Other:				
Contributions	-	-	90,250	90,250
Transfer of unrestricted assets to funds with deficiencies	-	115,203	-	-
Appropriation of assets for expenditure	<u>-</u>	<u>(103,537)</u>	<u>-</u>	<u>(103,537)</u>
Total other	<u>-</u>	<u>(103,537)</u>	<u>90,250</u>	<u>(13,287)</u>
Endowment net assets, end of year	<u>\$ 511,992</u>	<u>\$ 29,636</u>	<u>\$ 3,083,682</u>	<u>\$ 3,625,310</u>

#### 4. ENDOWMENT FUNDS (Cont.)

Endowment net asset composition by type of fund consists of the following as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 138,796	\$ 2,993,432	\$ 3,132,228
Board-designated endowment funds	<u>529,934</u>	<u>-</u>	<u>-</u>	<u>529,934</u>
	<u>\$ 529,934</u>	<u>\$ 138,796</u>	<u>\$ 2,993,432</u>	<u>\$ 3,662,162</u>

Changes in endowment net assets by type of fund consist of the following for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 524,475</u>	<u>\$ 208,249</u>	<u>\$ 1,928,432</u>	<u>\$ 2,661,156</u>
Investment return:				
Investment income	19,765	67,480	-	87,245
Net appreciation of investments (realized and unrealized)	<u>(14,306)</u>	<u>(38,326)</u>	<u>-</u>	<u>(52,632)</u>
Total investment return	<u>5,459</u>	<u>29,154</u>	<u>-</u>	<u>34,613</u>
Other:				
Contributions	-	-	1,065,000	1,065,000
Appropriation of assets for expenditure	<u>-</u>	<u>(98,607)</u>	<u>-</u>	<u>(98,607)</u>
Total other	<u>-</u>	<u>(98,607)</u>	<u>1,065,000</u>	<u>966,393</u>
Endowment net assets, end of year	<u>\$ 529,934</u>	<u>\$ 138,796</u>	<u>\$ 2,993,432</u>	<u>\$ 3,662,162</u>

#### **4. ENDOWMENT FUNDS (Cont.)**

##### *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 UPMIFA requires the Organization to retain as a fund of perpetual duration. As of December 31, 2015 the fair value of certain endowment fund assets was \$115,203 less than the cost of those assets due to investment losses that exceeded the accumulated investment earnings as of December 31, 2015. There were no such deficiencies as of December 31, 2014.

##### *Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by endowments, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average annual rate of return of approximately 7 percent. Actual returns in any given year may vary from this amount.

##### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

##### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Organization has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of approximately 2 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## 5. TEMPORARILY RESTRICTED FUNDS

Funds were temporarily restricted by donors for the following purposes as of December 31,:

	<u>2015</u>	<u>2014</u>
Palmetum fund	\$ 123,437	\$ 187,809
Topiary maintenance fund	87,634	100,891
Outreach program	60,444	116,461
Water stairs project fund	57,428	69,430
SBCC work experience fund	21,542	7,500
Japanese Garden	14,380	-
Internship funds	10,000	10,000
Rare and specimen plant fund	7,679	8,873
Board summit fund	3,478	3,971
Water garden tile benches fund	2,543	2,543
Valentine facilities fund	1,667	78,638
Professional development fund	1,021	2,996
Volunteer coordinator	-	40,000
Irrigation water supply line	-	20,000
Flock exhibit	-	7,333
Other	8,107	2,377
	<u>399,360</u>	<u>658,822</u>
The portion of endowment funds subject to a time restriction under UPMIFA:		
Lotus Society	<u>25,905</u>	<u>131,118</u>
	<u>425,265</u>	<u>131,118</u>
The portion of endowment funds subject to a purpose restriction and a time restriction under UPMIFA:		
Topiary Garden	-	1,735
Blue Garden	-	538
Theater Garden	-	809
Internship	3,731	4,139
Cactus Garden	-	457
	<u>3,731</u>	<u>7,678</u>
Total temporarily restricted funds	<u>\$ 428,996</u>	<u>\$ 797,618</u>

## **6. COLLECTIONS**

The Organization's botanical collections are made up of rare and unusual plant specimens assembled in numerous theme gardens which are open to visitors of Lotusland. The Organization employs numerous horticultural professionals to maintain the gardens.

Expenditures for botanical collections were approximately \$7,000 and \$22,500 for the years ended December 31, 2015 and 2014, respectively, and are included in facilities expenses in the accompanying statement of functional expenses.

Other collections include books and various personal effects of Madame Ganna Walska.

## **7. EMPLOYEE BENEFIT PLANS**

### *Flexible Benefit Plan*

The Organization has a flexible benefit plan (Plan) that permits participants to elect to receive benefits for themselves and their eligible dependents under various component plans, which provide health, dental, life insurance, disability and cancer benefits. It is intended that the Plan qualify under Section 125 of the IRC as a cafeteria plan. The Plan includes a flexible spending account option which allows employee contributions through compensation reduction payments. The Organization pays all administrative costs of the Plan.

### *Retirement Plan*

The Organization has a Retirement Plan (403(b) Plan) which allows employees to participate in the salary reduction purchase of tax-sheltered annuities and investments as described in Section 403(b) of the IRC. Employees may contribute up to the maximum as determined by IRC limits. All non-temporary employees are eligible to participate in the 403(b) Plan after their probationary period. After two years of employment of at least 1,000 hours per year, the Organization matches 50% of the eligible employee's contributions to the 403(b) Plan up to a maximum of 5% of their compensation. Employer contributions were approximately \$49,300 and \$41,700 for the years ended December 31, 2015 and 2014, respectively.

## **8. CONCENTRATIONS**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. As of December 31, 2015, substantially all of the Organization's cash was maintained in financial institutions and brokerage accounts. Cash balances held in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. Uninsured cash balances at December 31, 2015 totaled approximately \$220,000.

In addition, the Organization's investments are exposed to interest rate, market and credit risks. The level of risk associated with certain investment securities and the level of uncertainty related to changes in risks in the near term could materially affect the Organization's Statement of Financial Position and the Statement of Activities.

## **9. RELATED PARTY TRANSACTIONS**

The law firm associated with one of the board members provided legal services to the Organization totaling \$49,616 and \$4,592 for the years ended December 31, 2015 and 2014, respectively.

## **10. INTENTION TO GIVE**

On December 30, 2013, a donor notified the Organization that it intended to provide \$100,000 to the Cactus Garden Endowment Campaign. It was the donor's intention that the Organization would receive the gift in equal payments of \$20,000 over each of the next five years, beginning in 2014. These funds, however, were gifted by the donor to a donor advised fund held at a community foundation. While the donor does advise where and how the funds should be distributed, once donated, they are fully at the discretion of the community foundation. Therefore, at December 31, 2015 no pledge receivable has been recognized in the accompanying financial statements related to this intended donation. The donation will be recognized when received or when the Organization is notified by the community foundation of a pending payment. During the year ended December 31, 2015 the Organization received \$20,000 from the community foundation to fund the Cactus Garden Endowment Campaign.