

**GANNA WALSKA LOTUSLAND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

GANNA WALSKA LOTUSLAND

December 31, 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Audit Committee of the Board of Trustees
Ganna Walska Lotusland
Santa Barbara, California

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, 2019, and the related statements of activities and changes in net assets, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ganna Walska Lotusland as of December 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Ganna Walska Lotusland 2018 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated September 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

October 16, 2020

GANNA WALSKA LOTUSLAND

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Comparative Totals for December 31, 2018)

	ASSETS			(Memo)
	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 922,496	\$ -	\$ 922,496	\$ 1,309,800
Inventories	27,265	-	27,265	37,032
Pledges receivable, current portion	-	1,682,533	1,682,533	237,367
Other receivables	17,914	-	17,914	130,634
Prepaid expenses and deposits	<u>92,585</u>	<u>-</u>	<u>92,585</u>	<u>39,053</u>
 Total Current Assets	 <u>1,060,260</u>	 <u>1,682,533</u>	 <u>2,742,793</u>	 <u>1,753,886</u>
 NON-CURRENT ASSETS				
Pledges receivable, net of current portion	-	146,209	146,209	213,236
Investments	7,739,380	6,314,155	14,053,535	12,540,889
Property and equipment, net	<u>11,602,877</u>	<u>-</u>	<u>11,602,877</u>	<u>8,983,135</u>
 Total Non-Current Assets	 <u>19,342,257</u>	 <u>6,460,364</u>	 <u>25,802,621</u>	 <u>21,737,260</u>
 TOTAL ASSETS	 <u>\$ 20,402,517</u>	 <u>\$ 8,142,897</u>	 <u>\$ 28,545,414</u>	 <u>\$ 23,491,146</u>
 LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 68,262	\$ -	\$ 68,262	\$ 238,487
Accrued liabilities	<u>457,826</u>	<u>-</u>	<u>457,826</u>	<u>521,989</u>
 Total Current Liabilities	 <u>526,088</u>	 <u>-</u>	 <u>526,088</u>	 <u>760,476</u>
 NET ASSETS				
Without Donor Restrictions				
Board designated for endowment	604,713	-	604,713	471,503
Board designated for capital	70,422	-	70,422	107,346
Other net assets without donor restrictions	<u>19,201,294</u>	<u>-</u>	<u>19,201,294</u>	<u>12,840,551</u>
Total Without Donor Restrictions	19,876,429	-	19,876,429	13,419,400
 With Donor Restrictions	 <u>-</u>	 <u>8,142,897</u>	 <u>8,142,897</u>	 <u>9,311,270</u>
 Total Net Assets	 <u>19,876,429</u>	 <u>8,142,897</u>	 <u>28,019,326</u>	 <u>22,730,670</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 20,402,517</u>	 <u>\$ 8,142,897</u>	 <u>\$ 28,545,414</u>	 <u>\$ 23,491,146</u>

The accompanying notes are an integral part of these financial statements.

GANNA WALSKA LOTUSLAND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the Year Ended December 31, 2019
 (With Comparative Totals for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Memo) 2018 Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and grants	\$ 254,848	\$ 5,083,061	\$ 5,337,909	\$ 1,148,056
Membership contributions	616,747	-	616,747	626,295
Admission fees	476,558	-	476,558	417,537
Garden shop	142,387	-	142,387	122,835
Investment income (loss), net of fees of \$99,788 and \$102,711	1,379,203	568,480	1,947,683	(483,215)
Public programs	90,692	-	90,692	76,677
Other	91,632	-	91,632	190,675
Special events (net of expenses of \$504,172 and \$405,408)	562,803	-	562,803	616,842
Net assets released from restrictions	<u>6,819,914</u>	<u>(6,819,914)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>10,434,784</u>	<u>(1,168,373)</u>	<u>9,266,411</u>	<u>2,715,702</u>
EXPENSES				
Garden operations and plant collections	2,378,064	-	2,378,064	2,294,796
Management and general	888,699	-	888,699	653,265
Fundraising	<u>710,992</u>	<u>-</u>	<u>710,992</u>	<u>654,292</u>
Total Expenses	<u>3,977,755</u>	<u>-</u>	<u>3,977,755</u>	<u>3,602,353</u>
CHANGE IN NET ASSETS	6,457,029	(1,168,373)	5,288,656	(886,651)
NET ASSETS, BEGINNING OF YEAR	<u>13,419,400</u>	<u>9,311,270</u>	<u>22,730,670</u>	<u>23,617,321</u>
NET ASSETS, END OF YEAR	<u>\$ 19,876,429</u>	<u>\$ 8,142,897</u>	<u>\$ 28,019,326</u>	<u>\$ 22,730,670</u>

The accompanying notes are an integral part of these financial statements.

GANNA WALSKA LOTUSLAND

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

EXPENSES	Program Services	Support Services		2019 Total	(Memo) 2018 Total
	Garden Operations and Plant Collections	Management and General	Fundraising		
Salaries and wages	\$ 1,207,796	\$ 514,789	\$ 414,493	\$ 2,137,078	\$ 1,917,479
Payroll taxes and benefits	280,986	138,816	107,886	527,688	501,683
Total salaries and benefits	1,488,782	653,605	522,379	2,664,766	2,419,162
Professional services	3,179	79,738	2,881	85,798	57,344
General administrative expenses	211,418	87,715	108,058	407,191	340,236
Facilities	208,935	9,616	4,850	223,401	219,177
Insurance	29,339	12,056	9,707	51,102	43,947
Agricultural materials and supplies	53,365	11,367	67	64,799	57,721
Public programs and education	35,003	109	4,155	39,267	28,672
Public relations, advertising and promotion	43,049	12,435	25,807	81,291	122,337
Garden shop	58,910	-	-	58,910	58,746
Depreciation	246,084	22,058	33,088	301,230	255,011
2019 TOTAL EXPENSES	\$ 2,378,064	\$ 888,699	\$ 710,992	\$ 3,977,755	
2018 TOTAL EXPENSES (MEMO)	\$ 2,294,796	\$ 653,265	\$ 654,292		\$ 3,602,353

GANNA WALSKA LOTUSLAND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	<u>2019</u>	<u>(Memo)</u> <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,288,656	\$ (886,651)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	301,230	255,011
Unrealized loss (gain) on value of securities	(1,454,139)	943,652
Realized gain on sale of securities	(202,331)	(16,023)
Contributions restricted for endowment	(2,015,000)	(30,156)
(Increase) decrease in:		
Inventories	9,767	125
Pledges receivable	(1,378,139)	505,063
Other assets	112,720	(128,134)
Prepaid expenses and deposits	(53,532)	(2,319)
Increase (decrease) in:		
Accounts payable	(170,225)	96,787
Accrued liabilities	<u>(64,163)</u>	<u>308,089</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>374,844</u>	<u>1,045,444</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,920,972)	(2,677,653)
Purchase of securities	(3,728,873)	(288,229)
Proceeds from sale of securities	<u>3,872,697</u>	<u>504,792</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,777,148)</u>	<u>(2,461,090)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	<u>2,015,000</u>	<u>30,156</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,015,000</u>	<u>30,156</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(387,304)	(1,385,490)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,309,800</u>	<u>2,695,290</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 922,496</u>	<u>\$ 1,309,800</u>

The accompanying notes are an integral part of these financial statements.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 1 – 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.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

The Organization reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions". Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the Organization as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. It is at least reasonably possible that the significant estimates could change in the coming year.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, amounts in checking, savings, money market accounts, and certificates of deposit with maturities of three months or less.

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, 2019, is not in excess of market value.

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.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Comparative Amounts

The amounts shown for 2018 in the accompanying financial statements are included to provide a basis for comparison with 2019 and are not intended to present all information necessary for a fair presentation of the 2018 financial statements in conformity with accounting principles generally accepted in the United States of America.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and Equipment are recorded at cost or, if donated, at fair market value at the time of the 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. It is management's policy to capitalize certain purchases and donations with a useful life greater than one year and a value greater than \$1,000.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Land Improvements	10-40 years
Buildings and structures	10-40 years
Furniture and equipment	3-20 years

Contributions

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as assets without donor restrictions.

Membership Contributions

Membership contributions are recorded as revenue at the beginning of the membership period.

Contributed Assets

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

Contributed Services

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 2019, approximately 230 volunteers donated over 20,000 hours in support of the Organization's program services and fundraising activities, valued at an estimated \$400,000 (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.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Exempt Status

The Organization is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provision for income taxes is required. The Organization qualifies for the charitable contribution deduction under Section 170(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (1).

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2019, the Organization had no uncertain tax positions requiring accrual.

The Organization files tax returns in California and U.S. federal jurisdictions. The Organization is no longer subject to U.S. federal and state examinations by tax authorities for years before 2016 and 2015, respectively.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly, according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Subsequent Events

The Organization has evaluated subsequent events through October 16, 2020, the date which the financial statements were available to be issued.

Note 3 – PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. As of December 31, 2019, a current reserve of \$86,250 has been recorded and included in the net pledges receivable presented below.

Pledges receivable are recorded at the present value of estimated future cash flows using an appropriate risk-free rate of return for the year the pledge is recorded of 2.00%. The present value discount is amortized to contribution revenue over the terms of the pledges receivable.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 3 – PLEDGES RECEIVABLE (continued)

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

Pledges receivable are due in each future respective year as follows:

2020	\$ 1,682,533
2021	70,200
2022	44,667
2023	17,000
2024 and thereafter	<u>20,000</u>
	1,834,400
Less unamortized discount	<u>(5,658)</u>
	<u>\$ 1,828,742</u>

Note 4 – INVESTMENTS

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. At December 31, 2019, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Cash held for investment	\$ 259,146	\$ 259,146	\$ -
Fixed income	7,005,808	7,124,061	118,253
Equities and mutual funds	<u>5,083,860</u>	<u>6,670,328</u>	<u>1,586,468</u>
Total	<u>\$ 12,348,814</u>	<u>\$ 14,053,535</u>	<u>\$ 1,704,721</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Balance at end of the year	\$ 12,348,814	\$ 14,053,535	\$ 1,704,721
Balance at beginning of the year	12,290,307	12,540,889	<u>250,582</u>
Unrealized loss			<u>\$ 1,454,139</u>

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended December 31, 2019:

Investment and dividend income	\$ 391,001
Unrealized gain on value of securities	1,454,139
Realized gain on value of securities	202,331
Investment fees	<u>(99,788)</u>
Net Investment Income	<u>\$ 1,947,683</u>

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 5 – FAIR VALUE MEASUREMENT

The Organization has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs that are supported by little or no market activity;

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. As of December 31, 2019, there were no Level 2 or Level 3 investments.

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Cash held for investment – Cash held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Fixed income – Corporate bonds and bond funds provide a hedge against deflation, provide a stable return, and to minimize the overall volatility of the account. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Equities and mutual funds – Equities and mutual funds include a variety of publically traded stocks and mutual funds from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 5 – FAIR VALUE MEASUREMENT (continued)

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 259,146	\$ -	\$ -	\$ 259,146
Fixed Income				
Domestic fixed income	<u>7,124,061</u>	-	-	<u>7,124,061</u>
Total Fixed Income	<u>7,124,061</u>	-	-	<u>7,124,061</u>
Equities				
International mutual funds	2,265,628	-	-	2,265,628
Domestic mutual funds	<u>4,404,700</u>	-	-	<u>4,404,700</u>
Total Equities	<u>6,670,328</u>	-	-	<u>6,670,328</u>
Total assets measured at fair value	<u>\$ 14,053,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,053,535</u>

Note 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2019, is as follows:

Land	\$ 3,418,370
Land improvements	9,410,414
Buildings and structures	3,228,414
Furniture and equipment	<u>963,855</u>
	17,021,053
Less: accumulated depreciation	<u>(5,418,176)</u>
	<u>\$ 11,602,877</u>

Depreciation expense for the year ended December 31, 2019 totaled \$301,230.

Note 7 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by satisfying the restricted purposes specified by donors. When a donor restricts a contribution to the construction of a specific long-lived asset, the donor's restriction is fulfilled in the period in which that long-lived asset is constructed or placed in service. For the year ended December 31, 2019, net assets released from restrictions was \$6,819,914.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 8 – ENDOWMENT FUNDS

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 California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the value of the original gift, as of the gift date. As a result of this interpretation, the Organization has classified, with the explicit designation directive by the donor, as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the Organization considers the following factors in making a determination to appropriate or invest 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

Endowment Investment and Spending Policies

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 seven percent. Actual returns in any given year may vary from this amount.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 8 – ENDOWMENT FUNDS (continued)

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 to achieve its long-term return objectives within prudent risk constraints.

Endowment Investment and Spending Policies (continued)

The Organization has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value over the prior twelve quarters through the calendar yearend 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 two 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.

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. There were no such deficiencies as of December 31, 2019.

Endowment net assets with donor restrictions totaled \$7,110,064, consisting of total original gift endowment contributions of \$6,266,340 and accumulated earnings of \$843,724 as of December 31, 2019. In addition, the board has designated \$604,713 for endowment as of December 31, 2019.

Note 9 – 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 and to propagate plants for the collections.

Expenditures for botanical collections were approximately \$5,000 for the year ended December 31, 2019, 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.

Note 10 – CONCENTRATIONS, CREDIT RISK AND MARKET RISK

Concentrations

Two donors accounted for contributions in the aggregate amount of \$3,750,000 during the year ended December 31, 2019.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 10 – CONCENTRATIONS AND MARKET RISK (continued)

Credit Risk

The Organization maintains cash balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2019, uninsured cash and cash equivalent balances totaled approximately \$708,000.

Market Risk

The Organization holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Note 11 – RETIREMENT 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 \$54,000 for the year ended December 31, 2019.

Note 12 – RECLASSIFICATION

Certain amounts from the December 31, 2018 financial statements have been reclassified to conform to the December 31, 2019 financial statement presentation.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 13 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019:

Current assets		
Cash and cash equivalents available within one year	\$	922,496
Pledges and grants receivable, current portion		1,682,533
Other current assets		<u>137,764</u>
Total Current Assets		<u>2,742,793</u>
Investments		14,053,535
Less investments unavailable for general expenditures within one year:		
Endowments and other funds subject to spending policy appropriations beyond one year:		
With donor restrictions		<u>(5,790,569)</u>
Total Investments		<u>8,262,966</u>
Current liabilities		<u>(526,088)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019	\$	<u><u>10,479,671</u></u>

Note 14 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2019, net assets without donor restrictions consist of the following:

Operating net assets	\$	7,598,417
Board designated for endowment		604,713
Board designated for capital purchases		70,422
Property and equipment, net		<u>11,602,877</u>
Total Net Assets Without Donor Restrictions		<u><u>\$ 19,876,429</u></u>

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 14 – NET ASSETS (continued)

Net Assets With Donor Restrictions

As of December 31, 2019, net assets with donor restrictions consist of the following:

Japanese Garden endowment	\$ 2,752,646
Lotus Society general endowment	1,644,688
Topiary Garden endowment	1,134,644
Blue Garden endowment	1,134,644
Cactus Garden endowment	284,796
Japanese Garden	190,019
Blue Garden	180,173
Topiary maintenance fund	173,991
Coffee Table Book	99,517
Theatre Garden endowment	88,237
Japanese Garden maintenance fund	75,184
Conservation	54,462
Tropical Garden	51,064
Lotus Garden endowment	56,732
Open pathways fund	39,204
Cactus Garden fund	25,177
Internship funds	25,045
Palmetum fund	15,620
Work experience fund	12,776
Timbrook Intern Fellowship endowment	13,677
Theatre Garden	11,673
Water stairs project fund	8,941
Other	<u>69,987</u>
Total Net Assets With Donor Restrictions	<u>\$ 8,142,897</u>

Note 15 – SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Organization's financial position, changes in net assets and cash flows in 2020 and the future. As of October 16, 2020, the Organization's office remains open, subject to regulated and reduced operations.

On May 6, 2020, the Organization received loan funding of \$409,657 under the Paycheck Protection Program as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The loan allows for the loan proceeds to be used on allowable costs for the Organization. The loan will be fully forgiven if the funds are used for payroll costs, rent and utilities and at least 60% of the forgiven amount must be used for payroll. Loan payments will also be deferred for six months. No collateral or personal guarantees were required. Forgiveness will be based on maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. The loan has a maturity of five years and an interest rate of 1%. The Organization intends to comply with all regulations to allow for the loan to be fully forgiven.

GANNA WALSKA LOTUSLAND

NOTES TO FINANCIAL STATEMENTS

Note 15 – SUBSEQUENT EVENTS (continued)

On September 9, 2020, a foundation donor provided the Organization with a \$250,000 grant to fund the Japanese Garden Endowment.