

**GANNA WALSKA LOTUSLAND
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

GANNA WALSKA LOTUSLAND

December 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 – 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 18



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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated July 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

August 22, 2018

GANNA WALSKA LOTUSLAND

STATEMENT OF FINANCIAL POSITION

December 31, 2017

(With Comparative Totals for December 31, 2016)

ASSETS					(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,695,290	\$ -	\$ -	\$ 2,695,290	\$ 2,489,749
Inventories	37,157	-	-	37,157	51,180
Pledges receivable, current portion	-	227,500	262,750	490,250	128,450
Other receivables	2,500	-	-	2,500	1,620
Prepaid expenses and deposits	36,734	-	-	36,734	39,455
	<u>2,771,681</u>	<u>227,500</u>	<u>262,750</u>	<u>3,261,931</u>	<u>2,710,454</u>
TOTAL Current Assets					
NON-CURRENT ASSETS					
Pledges receivable, net of current portion	-	455,071	10,345	465,416	293,237
Investments	6,245,237	3,489,506	3,950,338	13,685,081	12,864,023
Property and equipment, net	6,560,493	-	-	6,560,493	5,825,741
	<u>12,805,730</u>	<u>3,944,577</u>	<u>3,960,683</u>	<u>20,710,990</u>	<u>18,983,001</u>
TOTAL Non-Current Assets					
TOTAL ASSETS	<u>\$ 15,577,411</u>	<u>\$ 4,172,077</u>	<u>\$ 4,223,433</u>	<u>\$ 23,972,921</u>	<u>\$ 21,693,455</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 141,700	\$ -	\$ -	\$ 141,700	\$ 100,719
Accrued liabilities	213,900	-	-	213,900	160,680
	<u>355,600</u>	<u>-</u>	<u>-</u>	<u>355,600</u>	<u>261,399</u>
TOTAL Current Liabilities					
NET ASSETS					
Unrestricted					
Board designated for Lotus Society	594,319	-	-	594,319	511,992
Board designated for capital	68,947	-	-	68,947	27,290
Other unrestricted net assets	14,558,545	-	-	14,558,545	14,610,040
Total Unrestricted	15,221,811	-	-	15,221,811	15,149,322
Temporarily restricted					
	-	4,172,077	-	4,172,077	2,760,302
Permanently restricted					
	-	-	4,223,433	4,223,433	3,522,432
	<u>15,221,811</u>	<u>4,172,077</u>	<u>4,223,433</u>	<u>23,617,321</u>	<u>21,432,056</u>
TOTAL Net Assets					
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,577,411</u>	<u>\$ 4,172,077</u>	<u>\$ 4,223,433</u>	<u>\$ 23,972,921</u>	<u>\$ 21,693,455</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, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>(Memo) 2016 Total</u>
REVENUE, GAINS AND OTHER SUPPORT					
Contributions and grants	\$ 162,283	\$ 1,600,208	\$ 701,001	\$ 2,463,492	\$ 3,591,484
Membership contributions	573,117	-	-	573,117	615,029
Admission fees	458,308	-	-	458,308	425,407
Garden shop	143,076	-	-	143,076	144,759
Investment income (net of fees of \$104,942 and \$52,790)	992,956	310,129	-	1,303,085	703,436
Public programs	75,465	-	-	75,465	67,455
Other	68,001	-	-	68,001	82,242
Special events (net of expenses of \$549,266 and \$306,102)	419,324	62,150	-	481,474	411,480
Net assets released from restrictions	560,712	(560,712)	-	-	-
	<u>3,453,242</u>	<u>1,411,775</u>	<u>701,001</u>	<u>5,566,018</u>	<u>6,041,292</u>
Total Revenue, Gains and Other Support					
EXPENSES					
Garden operations and plant collections	2,168,816	-	-	2,168,816	2,171,679
Management and general	575,124	-	-	575,124	596,510
Fundraising	636,813	-	-	636,813	635,006
	<u>3,380,753</u>	<u>-</u>	<u>-</u>	<u>3,380,753</u>	<u>3,403,195</u>
Total Expenses					
CHANGE IN NET ASSETS	72,489	1,411,775	701,001	2,185,265	2,638,097
NET ASSETS, BEGINNING OF YEAR	<u>15,149,322</u>	<u>2,760,302</u>	<u>3,522,432</u>	<u>21,432,056</u>	<u>18,793,959</u>
NET ASSETS, END OF YEAR	<u>\$ 15,221,811</u>	<u>\$ 4,172,077</u>	<u>\$ 4,223,433</u>	<u>\$ 23,617,321</u>	<u>\$ 21,432,056</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, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

EXPENSES	Program Services	Support Services		2017 Total	(Memo) 2016 Total
	Garden Operations and Plant Collections	Management and General	Fundraising		
Salaries and wages	\$ 1,116,821	\$ 298,383	\$ 372,119	\$ 1,787,323	\$ 1,734,162
Payroll taxes and benefits	279,607	141,672	64,536	485,815	498,314
Total salaries and benefits	1,396,428	440,055	436,655	2,273,138	2,232,476
Professional services	3,720	54,560	2,072	60,352	150,761
General administrative expenses	189,036	34,478	94,889	318,403	309,607
Facilities	185,137	13,438	10,135	208,710	188,554
Insurance	14,054	5,050	4,302	23,406	48,869
Agricultural materials and supplies	60,332	593	19	60,944	43,613
Public programs and education	18,505	-	3,197	21,702	20,177
Public relations, advertising and promotion	26,763	6,780	55,289	88,832	87,601
Garden shop	73,139	-	-	73,139	72,165
Depreciation	201,702	20,170	30,255	252,127	249,372
2017 TOTAL EXPENSES	\$ 2,168,816	\$ 575,124	\$ 636,813	\$ 3,380,753	
2016 TOTAL EXPENSES (MEMO)	\$ 2,171,679	\$ 596,510	\$ 635,006		\$ 3,403,195

GANNA WALSKA LOTUSLAND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	2017	(Memo) 2016
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,185,265	\$ 2,638,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	252,127	249,372
Unrealized gain on value of securities	(982,907)	(192,100)
Realized gain on sale of securities	(96,349)	(223,988)
Contributions restricted for endowment	(701,001)	(438,750)
(Increase) decrease in:		
Inventories	14,023	5,754
Pledges receivable	(533,979)	(315,687)
Other assets	(880)	(1,370)
Prepaid expenses and deposits	2,721	33,294
Increase (decrease) in:		
Accounts payable	40,981	(22,562)
Accrued liabilities	<u>53,220</u>	<u>(12,127)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>233,221</u>	<u>1,719,933</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(986,879)	(288,482)
Purchase of securities	(106,517)	(10,458,007)
Proceeds from sale of securities	<u>364,715</u>	<u>10,625,394</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(728,681)</u>	<u>(121,095)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	<u>701,001</u>	<u>438,750</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>701,001</u>	<u>438,750</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	205,541	2,037,588
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,489,749</u>	<u>452,161</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,695,290</u>	<u>\$ 2,489,749</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. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

In accordance with generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets consist of funds free of any donor-imposed restrictions and which the governing board has discretionary control for use in carrying out the general operations of the Organization.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Organization that fulfill donor stipulations.

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the endowment fund assets can be used to support the Organization's general activities and are reported as temporarily restricted amounts on the statement of activities until those amounts are appropriated for expenditure.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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, 2017, 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 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and are not intended to present all information necessary for a fair presentation of the 2016 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 temporarily restricted or permanently restricted support 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 unrestricted.

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.

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 2017, approximately 250 volunteers donated over 16,500 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, 2017, 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 2014 and 2013, 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 August 22, 2018, 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. The Organization considers all pledges receivable at December 31, 2017, to be fully collectible; therefore, no current provision has been made. Pledges receivable are due in each future respective year as follows:

2018	\$ 490,250
2019	193,200
2020	122,700
2021	49,700
2022 and thereafter	<u>116,167</u>
	972,017
Less unamortized discount	<u>(16,351)</u>
	<u>\$ 955,666</u>

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 3 – PLEDGES RECEIVABLE (continued)

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 1.25%. The present value discount is amortized to contribution revenue over the terms of the pledges receivable.

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

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, 2017, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash held for investment	\$ 114,676	\$ 114,676	\$ -
Fixed income	6,998,707	6,992,861	(5,846)
Equities and mutual funds	<u>5,377,464</u>	<u>6,577,544</u>	<u>1,200,080</u>
Total	<u>\$ 12,490,847</u>	<u>\$13,685,081</u>	<u>\$ 1,194,234</u>

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

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at end of the year	\$ 12,490,847	\$ 13,685,081	\$ 1,194,234
Balance at beginning of the year	12,652,696	12,864,023	<u>211,327</u>
Net change in unrealized loss			<u>\$ 982,907</u>

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended December 31, 2017:

Investment and dividend income	\$ 328,771
Unrealized gain on value of securities	982,907
Realized gain on value of securities	96,349
Investment fees	<u>(104,942)</u>
Net Investment Return	<u>\$ 1,303,085</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, 2017, 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, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 114,676	\$ -	\$ -	\$ 114,676
Fixed Income				
Domestic fixed income	<u>6,992,861</u>	-	-	<u>6,992,861</u>
Total Fixed Income	<u>6,992,861</u>	-	-	<u>6,992,861</u>
Equities				
International mutual funds	2,597,377	-	-	2,597,377
Domestic mutual funds	<u>3,980,167</u>	-	-	<u>3,980,167</u>
Total Equities	<u>6,577,544</u>	-	-	<u>6,577,544</u>
Total assets measured at fair value	<u>\$ 13,685,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,685,081</u>

Note 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2017, is as follows:

Land	\$ 3,418,370
Land improvements	3,982,764
Buildings and structures	3,146,204
Furniture and equipment	<u>875,090</u>
	11,422,428
Less: accumulated depreciation	<u>(4,861,935)</u>
	<u>\$ 6,560,493</u>

Depreciation expense for the year ended December 31, 2017, totaled \$252,127.

Note 7 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by satisfying the restricted purposes specified by donors. For the year ended December 31, 2017, the passage of time restrictions resulted in net assets released from restrictions of \$560,712.

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.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 8 – ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Board of Directors 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 prohibition by the donor, as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets 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.

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.

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 8 – ENDOWMENT FUNDS (continued)

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, 2017.

As of December 31, 2017, endowment net asset composition by type is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 423,280	\$ 4,223,433	\$ 4,646,713
Board-restricted	<u>663,266</u>	<u>-</u>	<u>-</u>	<u>663,266</u>
Total endowment funds	<u>\$ 663,266</u>	<u>\$ 423,280</u>	<u>\$ 4,223,433</u>	<u>\$ 5,309,979</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, including board designated, beginning of year	\$ 539,282	\$ 113,151	\$ 3,522,432	\$ 4,174,865
Net investment return (investment income, realized and unrealized gains and losses)	-	310,129	-	310,129
Contributions	123,984	-	701,001	824,985
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 663,266</u>	<u>\$ 423,280</u>	<u>\$ 4,223,433</u>	<u>\$ 5,309,979</u>

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

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.

Expenditures for botanical collections were approximately \$5,000 for the year ended December 31, 2017, 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 AND MARKET RISK

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, 2017, uninsured cash and cash equivalent balances totaled approximately \$2,090,000.

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 – RELATED PARTY TRANSACTIONS

The law firm associated with one of the board members provided legal services to the Organization totaling approximately \$650 for the year ended December 31, 2017.

Note 12 – 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.

GANNA WALSKA LOTUSLAND

NOTES TO FINANCIAL STATEMENTS

Note 12 – RETIREMENT PLANS (continued)

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 \$42,500 for the year ended December 31, 2017.

Note 13 – NET ASSETS

Unrestricted Net Assets

As of December 31, 2017, unrestricted net assets consist of the following:

Operating net assets	\$ 7,998,052
Board designated for Lotus Society	594,319
Board designated for capital purchases	68,947
Property and equipment, net	<u>6,560,493</u>
Total Unrestricted Net Assets	<u>\$ 15,221,811</u>

Temporarily Restricted Net Assets

As of December 31, 2017, temporarily restricted net assets consist of the following:

Japanese Garden	\$ 3,637,715
Palmetum fund	65,224
Outreach program	43,275
Topiary maintenance fund	100,782
Water stairs project fund	33,423
Blue Garden	107,887
Work experience fund	11,280
Internship funds	15,795
Open pathways fund	10,484
Security cameras	574
Professional development fund	1,210
Irrigation water supply line	38,000
Wall Renovation Plantings	11,369
Garden fund	25,394
Theater Garden	10,255
Other	<u>59,410</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,172,077</u>

GANNA WALSKA LOTUSLAND
NOTES TO FINANCIAL STATEMENTS

Note 13 – NET ASSETS (continued)

Permanently Restricted Net Assets

As of December 31, 2017, permanently restricted net assets consist of the following:

Topiary Garden	\$ 1,000,000
Blue Garden endowment	1,000,000
Lotus Society	1,426,612
Japanese Garden endowment	426,000
Cactus Garden endowment	231,000
Theatre Garden endowment	77,766
Lotus Garden endowment	50,000
Timbrook Intern Fellowship	<u>12,055</u>
Total Permanently Restricted Net Assets	<u>\$ 4,223,433</u>

Note 14 – RECLASSIFICATION

Certain amounts from the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 financial statement presentation.