

**GANNA WALSKA LOTUSLAND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

# GANNA WALSKA LOTUSLAND

December 31, 2016

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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, 2016, 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, 2016, 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**

The financial statements of Ganna Walska Lotusland as of December 31, 2015, were audited by other auditors whose report dated June 17, 2016, expressed an unqualified opinion on those statements.

*McGowan Guntermann*

Santa Barbara, California

July 21, 2017

**GANNA WALSKA LOTUSLAND**

STATEMENT OF FINANCIAL POSITION

December 31, 2016

(With Comparative Totals for December 31, 2015)

	<b>ASSETS</b>				(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 2,489,749	\$ -	\$ -	\$ 2,489,749	\$ 452,161
Inventories	51,180	-	-	51,180	56,934
Pledges receivable, current portion	-	116,200	12,250	128,450	47,000
Other receivables	1,620	-	-	1,620	250
Prepaid expenses and deposits	39,455	-	-	39,455	72,749
	<u>2,582,004</u>	<u>116,200</u>	<u>12,250</u>	<u>2,710,454</u>	<u>629,094</u>
<b>TOTAL Current Assets</b>					
	<u>2,582,004</u>	<u>116,200</u>	<u>12,250</u>	<u>2,710,454</u>	<u>629,094</u>
<b>NON-CURRENT ASSETS</b>					
Pledges receivable, net of current portion	-	271,880	21,357	293,237	59,000
Investments	7,002,976	2,372,222	3,488,825	12,864,023	12,615,322
Property and equipment, net	5,825,741	-	-	5,825,741	5,786,631
	<u>12,828,717</u>	<u>2,644,102</u>	<u>3,510,182</u>	<u>18,983,001</u>	<u>18,460,953</u>
<b>TOTAL Non-Current Assets</b>					
	<u>12,828,717</u>	<u>2,644,102</u>	<u>3,510,182</u>	<u>18,983,001</u>	<u>18,460,953</u>
<b>TOTAL ASSETS</b>					
	<u><b>\$ 15,410,721</b></u>	<u><b>\$ 2,760,302</b></u>	<u><b>\$ 3,522,432</b></u>	<u><b>\$ 21,693,455</b></u>	<u><b>\$ 19,090,047</b></u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 100,719	\$ -	\$ -	\$ 100,719	\$ 123,281
Accrued liabilities	160,680	-	-	160,680	172,807
	<u>261,399</u>	<u>-</u>	<u>-</u>	<u>261,399</u>	<u>296,088</u>
<b>TOTAL Current Liabilities</b>					
	<u>261,399</u>	<u>-</u>	<u>-</u>	<u>261,399</u>	<u>296,088</u>
<b>NET ASSETS</b>					
<b>Unrestricted</b>					
Board designated for Lotus Society	511,992	-	-	511,992	511,992
Board designated for capital	27,290	-	-	27,290	-
Other unrestricted net assets	14,610,040	-	-	14,610,040	14,769,289
	<u>15,149,322</u>	<u>-</u>	<u>-</u>	<u>15,149,322</u>	<u>15,281,281</u>
<b>Total Unrestricted</b>					
	<u>15,149,322</u>	<u>-</u>	<u>-</u>	<u>15,149,322</u>	<u>15,281,281</u>
Temporarily restricted	-	2,760,302	-	2,760,302	428,996
Permanently restricted	-	-	3,522,432	3,522,432	3,083,682
	<u>-</u>	<u>2,760,302</u>	<u>3,522,432</u>	<u>6,282,734</u>	<u>3,512,678</u>
<b>Total Temporarily and Permanently Restricted</b>					
	<u>-</u>	<u>2,760,302</u>	<u>3,522,432</u>	<u>6,282,734</u>	<u>3,512,678</u>
<b>TOTAL Net Assets</b>					
	<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>
<b>TOTAL LIABILITIES AND NET ASSETS</b>					
	<u><b>\$ 15,410,721</b></u>	<u><b>\$ 2,760,302</b></u>	<u><b>\$ 3,522,432</b></u>	<u><b>\$ 21,693,455</b></u>	<u><b>\$ 19,090,047</b></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, 2016  
(With Comparative Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	(Memo) 2015 Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>					
Contributions and grants	\$ 450,035	\$ 2,702,699	\$ 438,750	\$ 3,591,484	\$ 864,093
Membership contributions	615,029	-	-	615,029	514,657
Admission fees	425,407	-	-	425,407	435,734
Garden shop	144,759	-	-	144,759	146,203
Investment income (loss) (net of fees of \$52,790 and \$67,557)	619,921	83,515	-	703,436	(414,954)
Public programs	67,455	-	-	67,455	124,831
Other	82,242	-	-	82,242	51,119
Special events (net of expenses of \$306,102 and \$255,300)	411,480	-	-	411,480	411,842
Net assets released from restrictions	454,908	(454,908)	-	-	-
<b>Total Revenue, Gains and Other Support</b>	<u>3,271,236</u>	<u>2,331,306</u>	<u>438,750</u>	<u>6,041,292</u>	<u>2,133,525</u>
<b>EXPENSES</b>					
Garden operations and plant collections	2,171,679	-	-	2,171,679	2,202,468
Management and general	596,510	-	-	596,510	641,994
Fundraising	635,006	-	-	635,006	697,879
<b>Total Expenses</b>	<u>3,403,195</u>	<u>-</u>	<u>-</u>	<u>3,403,195</u>	<u>3,542,341</u>
<b>CHANGE IN NET ASSETS</b>	<b>(131,959)</b>	<b>2,331,306</b>	<b>438,750</b>	<b>2,638,097</b>	<b>(1,408,816)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>15,281,281</u>	<u>428,996</u>	<u>3,083,682</u>	<u>18,793,959</u>	<u>20,202,775</u>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 15,149,322</u></b>	<b><u>\$ 2,760,302</u></b>	<b><u>\$ 3,522,432</u></b>	<b><u>\$ 21,432,056</u></b>	<b><u>\$ 18,793,959</u></b>

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

**GANNA WALSKA LOTUSLAND**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

EXPENSES	Program Services	Support Services		2016 Total	(Memo) 2015 Total
	Garden Operations and Plant Collections	Management and General	Fundraising		
Salaries and wages	\$ 1,078,772	\$ 293,449	\$ 361,941	\$ 1,734,162	\$ 1,632,240
Payroll taxes and benefits	289,824	143,840	64,650	498,314	536,408
Total salaries and benefits	1,368,596	437,289	426,591	2,232,476	2,168,648
Professional services	233	72,412	78,116	150,761	145,791
General administrative expenses	241,961	35,651	31,995	309,607	343,973
Facilities	171,209	12,797	4,548	188,554	242,365
Insurance	29,442	10,425	9,002	48,869	23,021
Agricultural materials and supplies	43,289	264	60	43,613	130,099
Public programs and education	19,131	120	926	20,177	104,216
Public relations, advertising and promotion	26,156	7,602	53,843	87,601	47,355
Garden shop	72,165	-	-	72,165	83,767
Depreciation	199,497	19,950	29,925	249,372	253,106
<b>2016 TOTAL EXPENSES</b>	<b>\$ 2,171,679</b>	<b>\$ 596,510</b>	<b>\$ 635,006</b>	<b>\$ 3,403,195</b>	
2015 TOTAL EXPENSES (MEMO)	\$ 2,202,468	\$ 641,994	\$ 697,879		\$ 3,542,341

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

**GANNA WALSKA LOTUSLAND**

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>	<u>(Memo)</u> <u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,638,097	\$ (1,408,816)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	249,372	253,106
Unrealized loss (gain) on value of securities	(192,100)	674,839
Realized loss (gain) on sale of securities	(223,988)	99,455
Contribution of securities	-	(10,385)
(Increase) decrease in:		
Inventories	5,754	222
Pledges receivable	(315,687)	(17,000)
Other assets	(1,370)	(32,273)
Prepaid expenses and deposits	33,294	-
Increase (decrease) in:		
Accounts payable	(22,562)	71,192
Accrued liabilities	<u>(12,127)</u>	<u>20,756</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>2,158,683</u>	<u>(348,904)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(288,482)	(241,189)
Purchase of securities	(10,458,007)	(2,039,035)
Proceeds from sale of securities	<u>10,625,394</u>	<u>2,511,511</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(121,095)</u>	<u>231,287</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,037,588</b>	<b>(117,617)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>452,161</u>	<u>569,778</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 2,489,749</u></b>	<b><u>\$ 452,161</u></b>

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, 2016, 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 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and are not intended to present all information necessary for a fair presentation of the 2015 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 2016, 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, 2016, 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 2013 and 2012, 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 July 21, 2017, 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, 2016, to be fully collectible; therefore, no current provision has been made. Pledges receivable are due in each future respective year as follows:

2017	\$ 128,450
2018	103,000
2019	51,000
2020	41,000
2021 and thereafter	<u>110,000</u>
	433,450
Less unamortized discount	<u>(11,763)</u>
	<u>\$ 421,687</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, 2016, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash held for investment	\$ 312,763	\$ 312,763	\$ -
Fixed income	6,794,863	6,764,002	( 30,861)
Equities and mutual funds	<u>5,545,070</u>	<u>5,787,258</u>	<u>242,188</u>
Total	<u>\$ 12,652,696</u>	<u>\$12,864,023</u>	<u>\$ 211,327</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	\$ 12,652,696	\$ 12,864,023	\$ 211,327
Balance at beginning of the year	12,596,095	12,615,322	<u>19,227</u>
Net change in unrealized loss			<u>\$ 192,100</u>

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended December 31, 2016:

Investment and dividend income	\$ 340,138
Unrealized gain on value of securities	192,100
Realized gain on value of securities	223,988
Investment fees	<u>(52,790)</u>
Net Investment Return	<u>\$ 703,436</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, 2016, 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, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 312,763	\$ -	\$ -	\$ 312,763
Fixed Income				
Domestic fixed income	<u>6,764,002</u>	-	-	<u>6,764,002</u>
Total Fixed Income	<u>6,764,002</u>	-	-	<u>6,764,002</u>
Equities				
International mutual funds	2,182,699	-	-	2,182,699
Domestic mutual funds	<u>3,604,559</u>	-	-	<u>3,604,559</u>
Total Equities	<u>5,787,258</u>	-	-	<u>5,787,258</u>
Total assets measured at fair value	<u>\$ 12,864,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,864,023</u>

Note 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2016, is as follows:

Land	\$ 3,418,370
Land improvements	3,031,514
Buildings and structures	3,139,359
Furniture and equipment	<u>846,306</u>
	10,435,549
Less: accumulated depreciation	<u>(4,609,808)</u>
	<u>\$ 5,825,741</u>

Depreciation expense for the year ended December 31, 2016, totaled \$249,372.

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, 2016, the passage of time restrictions resulted in net assets released from restrictions of \$454,908.

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, 2016.

As of December 31, 2016, 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	\$ -	\$ 113,151	\$ 3,522,432	\$ 3,635,583
Board-restricted	<u>539,282</u>	<u>-</u>	<u>-</u>	<u>539,282</u>
Total endowment funds	<u>\$ 539,282</u>	<u>\$ 113,151</u>	<u>\$ 3,522,432</u>	<u>\$ 4,174,865</u>

Changes in endowment net assets for the year ended December 31, 2015, 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	\$ 511,992	\$ 29,636	\$ 3,083,682	\$ 3,625,310
Net investment return (investment income, realized and unrealized gains and losses)	-	83,515	-	83,515
Contributions	46,890	-	438,750	485,640
Appropriation of endowment assets for expenditure	<u>(19,600)</u>	<u>-</u>	<u>-</u>	<u>(19,600)</u>
Endowment net assets, end of year	<u>\$ 539,282</u>	<u>\$ 113,151</u>	<u>\$ 3,522,432</u>	<u>\$ 4,174,865</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, 2016, 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, 2016, uninsured cash and cash equivalent balances totaled approximately \$2,027,000.

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 \$50,000 for the year ended December 31, 2016.

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 \$46,600 for the year ended December 31, 2016.

### Note 13 – NET ASSETS

#### Unrestricted Net Assets

As of December 31, 2016, unrestricted net assets consist of the following:

Operating net assets	\$ 8,784,299
Board designated for Lotus Society	511,992
Board designated for capital purchases	27,290
Property and equipment, net	<u>5,825,741</u>
Total Unrestricted Net Assets	<u>\$ 15,149,322</u>

#### Temporarily Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets consist of the following:

Japanese Garden	\$ 2,435,590
Palmetum fund	83,217
Outreach program	56,241
Topiary maintenance fund	48,002
Water stairs project fund	45,425
Blue Garden	20,732
Work experience fund	13,507
Internship funds	11,500
Open pathways fund	7,000
Security cameras	6,427
Professional development fund	3,166
Irrigation water supply line	3,000
Board summit fund	2,904
Garden fund	2,033
Other	<u>21,558</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,760,302</u>

**GANNA WALSKA LOTUSLAND**  
**NOTES TO FINANCIAL STATEMENTS**

Note 13 – NET ASSETS (continued)

Permanently Restricted Net Assets

As of December 31, 2016, permanently restricted net assets consist of the following:

Topiary Garden	\$ 1,000,000
Blue Garden endowment	1,000,000
Lotus Society	921,612
Japanese Garden endowment	300,000
Cactus Garden endowment	161,000
Theatre Garden endowment	77,766
Lotus Garden endowment	50,000
Timbrook Intern Fellowship	<u>12,054</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,522,432</u>

Note 14 – RECLASSIFICATION

Certain amounts from the December 31, 2015 financial statements have been reclassified to conform to the December 31, 2016 financial statement presentation.