

**RANCHO SANTA ANA BOTANIC GARDEN**  
**(A CALIFORNIA NON-PROFIT ORGANIZATION)**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009

# RANCHO SANTA ANA BOTANIC GARDEN

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# Rothstein Kass

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Rancho Santa Ana Botanic Garden

We have audited the accompanying statement of financial position of Rancho Santa Ana Botanic Garden (the "Organization"), a non-profit organization, as of June 30, 2009 and the related statements of activities and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rancho Santa Ana Botanic Garden as of June 30, 2009, and the changes in its net assets and its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company, P.C.*

Beverly Hills, California  
January 27, 2010

# RANCHO SANTA ANA BOTANIC GARDEN

## STATEMENT OF FINANCIAL POSITION

June 30, 2009

### ASSETS

Cash and cash equivalents	\$ 2,838,163
Accounts receivable	207,230
Inventories	173,617
Prepaid expenses and other current assets	39,187
Investments, at fair value	23,511,856
Land, buildings, and equipment, net	2,216,864
Contribution receivable - beneficial interest in charitable remainder trust	163,926

### TOTAL ASSETS

\$ 29,150,843

### LIABILITIES

Accounts payable	\$ 187,110
Accrued expenses and other current liabilities	671,525
Total Liabilities	<u>858,635</u>

### Commitments and contingencies

### NET ASSETS (DEFICIENCY)

Unrestricted	(4,738,492)
Temporarily restricted	-
Permanently restricted	33,030,700
Total net assets	<u>28,292,208</u>

### TOTAL LIABILITIES AND NET ASSETS

\$ 29,150,843

# RANCHO SANTA ANA BOTANIC GARDEN

## STATEMENT OF ACTIVITIES

Fiscal year ending June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Membership and development	\$ 914,734	\$ 30,652	\$ 400,000	\$ 1,345,386
Education	39,312	-	-	39,312
Federal grants	349,617	-	-	349,617
Auxiliary activities	385,814	-	-	385,814
Other income	42,376	-	-	42,376
Total revenues, gains, and other support	<u>1,731,853</u>	<u>30,652</u>	<u>400,000</u>	<u>2,162,505</u>
<b>INVESTMENT INCOME</b>				
Net earnings	954,471	-	-	954,471
Amortization of discount in beneficial interest	-	-	(25,367)	(25,367)
Net unrealized and realized gains (loss) on investments	<u>(5,321,819)</u>	<u>(320,257)</u>	<u>(414,242)</u>	<u>(6,056,318)</u>
Total investment income (loss)	<u>(4,367,348)</u>	<u>(320,257)</u>	<u>(439,609)</u>	<u>(5,127,214)</u>
<b>TOTAL REVENUES (LOSS) AND INVESTMENT INCOME (LOSS)</b>	<u>(2,635,495)</u>	<u>(289,605)</u>	<u>(39,609)</u>	<u>(2,964,709)</u>
<b>Net assets released from restrictions</b>	<u>245,869</u>	<u>(245,869)</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES (LOSS) AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>\$ (2,389,626)</u>	<u>\$ (535,474)</u>	<u>\$ (39,609)</u>	<u>\$ (2,964,709)</u>

See accompanying notes to the financial statements.

# RANCHO SANTA ANA BOTANIC GARDEN

## STATEMENT OF ACTIVITIES (CONTINUED)

Fiscal year ending June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>EXPENSES</b>				
<b>Program services</b>				
Research, library & herbarium	\$ 1,592,258	\$ -	\$ -	\$ 1,592,258
Horticulture	1,007,166	-	-	1,007,166
Graduate and community education	514,939	-	-	514,939
Maintenance	259,758	-	-	259,758
Visitor and auxiliary services	347,550	-	-	347,550
Total program services	<u>3,721,671</u>	<u>-</u>	<u>-</u>	<u>3,721,671</u>
<b>Supporting services</b>				
General and administrative	970,280	-	-	970,280
Membership and development	489,194	-	-	489,194
Total supporting services	<u>1,459,474</u>	<u>-</u>	<u>-</u>	<u>1,459,474</u>
<b>Depreciation</b>	<u>300,389</u>	<u>-</u>	<u>-</u>	<u>300,389</u>
<b>TOTAL EXPENSES</b>	<u>5,481,534</u>	<u>-</u>	<u>-</u>	<u>5,481,534</u>
<b>CHANGES IN NET ASSETS</b>	(7,871,160)	(535,474)	(39,609)	(8,446,243)
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	<u>3,132,668</u>	<u>535,474</u>	<u>33,070,309</u>	<u>36,738,451</u>
<b>NET ASSETS (DEFICIENCY) AT END OF FISCAL YEAR</b>	<u>\$ (4,738,492)</u>	<u>\$ -</u>	<u>\$ 33,030,700</u>	<u>\$ 28,292,208</u>

See accompanying notes to the financial statements.

# RANCHO SANTA ANA BOTANIC GARDEN

## STATEMENT OF CASH FLOWS

Fiscal year ending June 30, 2009

### Cash flows from operating activities

Changes in net assets	\$ (8,446,243)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	300,389
Amortization of discount on contribution receivable - beneficial interest in charitable remainder trust	25,367
Net realized and unrealized loss on investments	6,056,318
Contribution restricted for long-term purposes	(400,000)
Changes in operating assets:	
Accounts receivable	(106,491)
Inventories	7,694
Prepaid expenses and other current assets	3,929
Changes in operating liabilities:	
Accounts payable	11,194
Accrued expenses and other current liabilities	286,758

### Net cash used in operating activities

(2,261,085)

### Cash flows from investing activities

Maturities and proceeds from sale of investments	8,736,577
Purchases of equipment	(4,064)
Purchases of investments	(5,752,091)

### Net cash provided by investing activities

2,980,422

### Cash flows from financing activities

Collection of contribution restricted for long-term purposes	400,000
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### Net increase in cash and cash equivalents

1,119,337

### Cash and cash equivalents, beginning of fiscal year

1,718,826

### Cash and cash equivalents, end of fiscal year

\$ 2,838,163

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Nature of operations and summary of significant accounting policies

#### *Nature of Activities*

Rancho Santa Ana Botanic Garden (the "Organization"), an American Association of Museums (AAM) accredited museum, is dedicated to the collection, cultivation, study, and display of California native plants. In support of that mission, the Organization maintains plant displays on its 86-acre grounds, conducts research and graduate education in plant systematics and evolutionary biology, promotes the use of California native plants in urban landscapes, actively conserves Californian plants that are rare and/or threatened with extinction, and conducts community and K through 12 education concerning the botany and natural history of California. Its facilities include research laboratories, an herbarium of about one million pressed plant specimens, a research library, greenhouses and nursery, and classrooms.

#### *Basis of Accounting*

The financial statements of the Organization have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

#### *Accounting for Contributions and Basis of Presentation*

The Organization has adopted Statement of Financial Accounting Standards ("SFAS") No. 116, "Accounting for Contributions" and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations". These statements require reporting revenue and net assets by class as unrestricted, temporarily restricted and permanently restricted. The following is a description of the Organization's funds and how they are allocated among the three classes of net assets:

Unrestricted net assets generally result from revenues from membership and development, education, grants, unrestricted contributions, auxiliary activities and investment income, less expenses incurred in program and supporting services.

Temporarily restricted net assets are limited by donors for specific purposes or the elapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

#### *Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

The Organization considers all highly liquid investments with initial maturity of three months or less to be cash equivalents.



# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Valuation of Investments in Securities at Fair Value – Definition and Hierarchy*

The Organization adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective July 1, 2008. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

*Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

*Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Organization uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Valuation Techniques*

The Company values investments in securities and securities sold short that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.

Many cash and over-the-counter (OTC) contracts have bid-and-ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the marketplace participants are willing to pay for an asset. Ask prices represent the lowest price that the marketplace participants are willing to accept for an asset. For securities whose inputs are based on bid-ask prices, the Company's valuation policies require that fair value be within the bid-ask range. The Company's policy for securities traded in the OTC markets and listed securities for which no sale was reported on that date are valued at their last reported "bid" price if held long, and last reported "asked" price if sold short.

#### *Impairment of Long-Lived Assets*

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Organization reviews the long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When such conditions exist, management estimates the future cash flows from operations and disposition of the assets. If the estimated undiscounted future cash flows are less than the carrying amount of the assets, an adjustment to reduce the carrying amount of the Investments' estimated fair market value is recorded.

#### *Inventories*

Inventories are stated at the lower of cost or market, determined by the first-in, first-out method.

#### *Land, Buildings, Equipment and Depreciation*

Land, buildings and equipment are stated at cost or the fair market value at date of donation or purchase. Depreciation of buildings and equipment is computed using the straight-line method over the assets' estimated useful lives, ranging from five to twenty-five years. Expenditures for renewals and betterments, and equipment costing over \$2,500 are capitalized.

Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the assets are to be used; gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

#### *Collections*

The Organization maintains a comprehensive living collection of Californian native plants, an extensive dried specimen collection in the herbarium, and a wide-ranging collection of botany volumes held in its library. No cost has been capitalized for these collections as it is impractical to determine their value due to the large number of items and the long span of years it has taken to create the collections. In addition, capitalizing collections contradicts standards of collections stewardship and its counter to the ethical standards set forth by the museum field.

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Endowment Funds*

The Organization's permanently restricted net assets consist of endowment funds subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Permanently restricted net assets include the initial endowment received prior to 1972, which provides ongoing support for the Organization, and subsequent endowment funds received in subsequent years. The Organization's endowment management policies for the initial endowment require that net appreciation is to be retained permanently in an amount necessary to adjust the historic dollar value of the original endowment gift by inflation as measured by the Consumer Price Index compiled by the Bureau of Labor Statistics. The earnings in excess of inflation are considered unrestricted and are to be used for ongoing support. The income from the subsequent endowments is to be utilized according to the specific criteria of the donor.

Management and the Board of Trustees are currently undertaking a study regarding the endowments to confirm the classification of funds within the permanently restricted and unrestricted fund classifications.

The Organization's investment policy encourages growth by using a moderate investment mix of up to 70% in equities, with the balance in fixed income securities and cash. The ultimate goal is an increased endowment and, therefore, higher income.

The Board of Trustees has established a spending policy for all pooled endowment funds based on five percent of the 12 quarter rolling average of the market value of the endowment fund.

#### *Contributions*

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassified between the applicable classes of net assets. For the year ended June 30, 2009, the Organization received \$490,151 worth of donated services from unpaid volunteers. No amounts have been recognized in the statements of activities because the criteria for recognition have not been satisfied.

#### *Income Taxes*

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue code and similar provisions of the California Franchise Tax Board. In addition, the Organization has been determined by the internal Revenue Service not to be a "private foundation."

The Organization has adopted FASB Staff Position No. FIN 48-3, which allows certain nonpublic entities to defer the effective date of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), until the annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected to apply the deferral and will adopt the provisions of FIN 48 effective July 1, 2009. The Organization's accounting policy for evaluating uncertain tax positions during financial statement periods subject to the deferral of FIN 48 is based on the recognition and disclosure criteria for loss contingencies under SFAS No. 5, "Accounting for Contingencies".

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Concentration of Credit Risk*

The Organization maintains a portion of its cash accounts at one commercial bank which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

In the normal course of business, substantially all of the Organization's securities transactions, money balances and security positions are transacted with a broker. The Organization is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Organization's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

### 2. Contribution receivable – beneficial interest in charitable remainder trust

The Organization is the beneficiary of a charitable remainder trust, the assets of which are not in the possession of the Organization. The trust provides for income to be retained by the income beneficiaries, while the Organization receives the ownership of the assets after a certain number of years or the death of the income beneficiaries. The estimated present value of the trusts is included in the Organization's assets as "contribution receivable-beneficial interest in charitable remainder trust."

### 3. Investments

Investments, other than real estate, are carried at fair value. The Organization invests cash in excess of daily requirements in short-term investments classified as cash and cash equivalents. At June 30, 2009, \$2,405,913 was invested short-term.

The historical cost and fair value of long-term investments, at June 30, 2009, were as follows:

	<b>Cost</b>	<b>Fair Value</b>
Corporate stocks	\$ 18,605,303	\$ 14,401,204
Corporate/ government bonds	<u>9,222,570</u>	<u>9,110,652</u>
	<u>27,827,873</u>	<u>23,511,856</u>

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Land, buildings, and equipment

Land, buildings and equipment are recorded at cost or fair value at the date of gift and consist of the following as of June 30, 2009:

Land	\$	228,474
Buildings and Improvements		5,375,092
Library		213,701
Equipment		<u>2,510,513</u>
		8,327,780
Less accumulated depreciation		<u>(6,110,916)</u>
	\$	<u>2,216,864</u>

Depreciation expense for the fiscal year ended June 30, 2009, amounted to \$300,389.

### 5. Fair value measurements

Information related to the Organization's assets measured at fair value on a recurring basis at June 30, 2009 is as follows:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of June 30, 2009</b>
<b>Assets</b>				
Corporate stocks	<u>\$ 17,204,972</u>	<u>\$ 6,306,884</u>	<u>\$ -</u>	<u>\$ 23,511,856</u>
	<u>\$ 17,204,972</u>	<u>\$ 6,306,884</u>	<u>\$ -</u>	<u>\$ 23,511,856</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 4% to 6% discount rate.

# RANCHO SANTA ANA BOTANIC GARDEN

## NOTES TO THE FINANCIAL STATEMENTS

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### 6. Inventory

Inventory consists of the following at June 30, 2009:

Books	\$ 152,763
Gift shop items	<u>20,854</u>
Total	<u>\$ 173,617</u>

### 7. Net assets released from restrictions

Net assets of \$245,869 were released from temporary donor restrictions during the fiscal year ended June 30, 2009, by incurring expenses satisfying the restricted purposes of expenditures related to research and education.

### 8. Financial allocation of expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated amongst the programs and supporting services benefited.

### 9. Retirement plan

The Organization maintains a retirement plan covering substantially all full-time employees who have completed one year of service or worked at least 1,560 hours during the 12-month period. The plan allows participants to make pretax contributions. In addition, the Board of Trustees may elect to make additional contributions. A contribution of \$196,156 was made for the fiscal year ended June 30, 2009.

### 10. Commitments and contingencies

The Organization leases equipment under agreements terminating in various years through 2012. At June 30, 2009, the future minimum lease payments were as follows:

Fiscal Years Ending June 30,

2010	\$ 7,904
2011	5,544
2012	<u>5,544</u>
Total	<u>\$ 18,992</u>

Rent expense for equipment under lease was \$45,827 for the fiscal year ended June 30, 2009, which includes a lease that expired in May 2009 and became a month-to-month lease from then on.