

FULLERTON ARBORETUM AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019

CONTENTS

INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Fund Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of the
Fullerton Arboretum Authority

We have audited the accompanying financial statements of the Fullerton Arboretum Authority, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

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 opinions.

INDEPENDENT AUDITORS' REPORT, continued

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fullerton Arboretum Authority as of June 30, 2020 and 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



GUZMAN & GRAY CPAS
Long Beach, California
September 16, 2020

FULLERTON ARBORETUM AUTHORITY
STATEMENT OF NET POSITION

JUNE 30, 2020 AND 2019

ASSETS

	June 30	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,164,775	\$ 949,264
Pledge receivable	24,966	
Prepaid expenses	5,111	4,818
TOTAL CURRENT ASSETS	1,194,852	954,082
FIXED ASSETS		
Capital assets, net	2,245,401	2,426,217
OTHER ASSETS		
Investments	3,129,958	1,731,686
Other assets	16,798	13,391
TOTAL OTHER ASSETS	3,146,756	1,745,077
TOTAL ASSETS	\$ 6,587,009	\$ 5,125,376

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 6,100	\$ 5,550
Accrued vacation and benefits	57,812	53,052
TOTAL LIABILITIES	63,912	58,602
NET POSITION		
Investment in capital assets, net of related debt	2,242,041	2,426,217
Restricted for:		
Programs	220,202	155,753
Non-expendable endowment	1,425,618	
Unrestricted	2,635,236	2,484,804
TOTAL NET POSITION	6,523,097	5,066,774
TOTAL LIABILITIES AND NET POSITION	\$ 6,587,009	\$ 5,125,376

See Independent Auditors' Report and Notes to Financial Statements.

FULLERTON ARBORETUM AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	June 30	
	2020	2019
OPERATING REVENUE		
Contributions	\$ 2,071,100	\$ 517,144
Programs fees	92,251	105,109
In-kind goods and services	614,789	572,846
TOTAL OPERATING REVENUE	2,778,140	1,195,099
OPERATING EXPENSES		
Salaries and benefits	955,977	848,635
Supplies and services	19,381	19,923
Contractual services	52,948	45,017
Telephone	4,724	2,129
Postage	487	224
Insurance	28,018	26,409
Printing and duplicating	368	1,815
Travel	1,247	1,808
Advertising and public relations	205	7,701
Equipment leases	1,860	1,860
Depreciation and amortization	184,175	183,514
Payroll tax and processing	17,015	23,874
Memberships and subscriptions	2,403	(287)
Maintenance	6,968	19,890
Utilities	84,066	93,630
Miscellaneous	444	188
TOTAL OPERATING EXPENSES	1,360,286	1,276,330
OPERATING INCOME (LOSS)	1,417,854	(81,231)
NONOPERATING INCOME		
Unrealized gain	35,038	82,180
Interest income	2,918	5,229
Other	513	1,647
TOTAL NONOPERATING INCOME	38,469	89,056
CHANGE IN NET POSITION	1,456,323	7,825
NET POSITION - BEGINNING OF YEAR	5,066,774	5,058,949
NET POSITION - END OF YEAR	\$ 6,523,097	\$ 5,066,774

See Independent Auditors' Report and Notes to Financial Statements.

FULLERTON ARBORETUM AUTHORITY
STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from contributions and customers	\$ 712,087	\$ 634,253
Payments owed to suppliers	(293)	142
Payments to suppliers	(143,384)	(159,465)
Payments to employees	(419,228)	(366,482)
	149,182	108,448
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets		(22,745)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(22,745)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and other income	3,431	6,876
Transfers from investments	62,898	15,882
	66,329	22,758
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	215,511	108,461
CASH AND CASH EQUIVALENTS		
Beginning of year	949,264	840,803
End of year	\$ 1,164,775	\$ 949,264
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating gain/(loss)	\$ 1,417,854	\$ (81,231)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	184,175	183,514
Change in current assets and liabilities:		
Pledge receivable	(24,966)	12,000
Prepaid expenses	(293)	(200)
Gifts made to endowment	(1,425,618)	
Other assets	(6,767)	(13,391)
Adjustment to net assets	(513)	
Accounts payable	550	142
Accrued vacation and benefits	4,760	7,614
	\$ 149,182	\$ 108,448
Net cash provided by operating activities		

See Independent Auditors' Report and Notes to Financial Statements.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Fullerton Arboretum Authority (Authority) is a nonprofit governmental agency created on March 24, 1976, through a Joint Powers Agreement (Agreement) between the Redevelopment Agency of the City of Fullerton (Redevelopment Agency) and the Trustees of the California State University and Colleges (Trustees). In 2012, the City of Fullerton took the place of the Redevelopment Agency, which was in the process of dissolution as mandated under state law. The purpose of the Authority is to operate, on approximately twenty-six acres of land owned by the Trustees, a public ecological preserve which serves both the City of Fullerton and California State University, Fullerton (CSUF), as an educational, research, and recreational facility. Subject to the provisions of the Agreement, the Authority's annual operating expenses will be funded by the City of Fullerton, the Trustees, and contributions from third-party sources, if any. The Agreements shall continue in full force and effect until December 3, 2020, or until repealed by all parties.

Governing Commission

The Authority shall be administered by a commission composed of seven members, each serving in their individual capacity as a member of the commission. Members appointed by the Redevelopment Agency shall be residents of the City of Fullerton, California. Members appointed by the Trustees and the seventh member, selected by the other six commissioners, and shall be residents of Orange County, California.

Accounting Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance for their proprietary fund, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Significant Accounting Policies

Proprietary Fund

The financial operations of the Authority are accounted for and reported on as business-type activities.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, which is defined as the basis of accounting under which expenses are recorded at the time liabilities are incurred, and revenues are recorded when earned, regardless of the timing of related cash flows.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Basis of Presentation

The Authority reports information regarding their financial position and activities according to three classes of net position: unrestricted net position, temporarily restricted net position, and permanently restricted net position. A description of each of these categories of net position is as follows:

Unrestricted net position – Net position that is not subject to donor-imposed stipulations.

Restricted net position – Net position subject to donor-imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations, or expire by the passage of time, or are subject to stipulations that they be maintained permanently. Restricted resources whose restrictions are met in the same reporting period are recorded as unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Authority follows the practice of pooling cash with CSUF, CSU Fullerton Auxiliary Services Corporation (CSUF ASC), and Cal State Fullerton Philanthropic Foundation (CSFPF). Interest income earned on pooled cash and cash equivalents is allocated to the various funds based on the average monthly invested cash balances in each participating fund.

Investments

The Authority carries its investments at fair market value. The difference between fair market value and cost is recorded as realized and unrealized gain (loss) account in the financial statements. Investments are held in an investment pool at the CSFPF.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments

The Authority carries its investments at fair market value. The difference between fair market value and cost is recorded as realized and unrealized gain (loss) account in the financial statements. Investments are held in an investment pool at the CSFPF.

Capital Assets

Capital assets are recorded at cost, except for donated assets, which are recorded at fair value at the date of receipt. The Authority has set the capitalization threshold for reporting all capital assets at \$5,000. Depreciation on capital assets is computed using the straight-line method of depreciation based on the following estimated useful lives:

Buildings and improvements	30 years
Infrastructure	30 years
Equipment	7 years
Furnishings	7 years
Improvements other than buildings	10 years

Accrued Vacation and Benefits

The liability for accrued vacation and benefits is recognized when the right to receive the compensation is earned by the employees.

Donated Services and Materials

Services of various administrative and maintenance personnel donated by CSUF for which there is a basis for measuring the fair value are recorded as contributions and expenses at the time the services are rendered. Donated materials of significant amounts are recorded at their fair value at the date of receipt.

Income Taxes

The Authority was formed and operated exclusively for charitable and educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code of 1954. No provision is made for Federal income and California franchise taxes, since the Authority is organized and operated as a nonprofit governmental agency.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 2 – CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash deposited with CSUF	\$ 15,502	\$ 200,631
Cash deposited with CSUF ASC	290,693	199,180
Cash deposited with CSFPF	<u>858,580</u>	<u>549,453</u>
Total cash deposits	<u>\$ 1,164,775</u>	<u>\$ 949,264</u>

For the years ended June 30, 2020 and 2019, the Authority did not have deposits under its name with financial institutions. Instead, the Authority deposited and pooled its cash with several related parties such as CSUF, CSUF ASC and CSFPF. The Authority entered into agreements with related parties such as the CSUF, CSUF ASC, and CSFPF where administrative services are provided to the Authority in managing these pooled funds. Funds were held in the, CSUF, CSUF ASC, and CSFPF's Trust Fund accounts and disbursements were made through check requests.

NOTE 3 – CONTRIBUTIONS

The Authority is supported through contributions of cash, materials, and services by various organizations and private donors. Summaries of these contributions which are reflected as revenues in the accompanying financial statements is as follows:

For the year ended June 30, 2020

<u>Donors</u>	<u>Cash</u>	<u>Investments</u>	<u>Materials and Services</u>	<u>Total</u>
City of Fullerton	\$ 236,410			\$ 236,410
CSUF			\$ 614,789	614,789
Friends of the Fullerton Arboretum	24,966	\$ 1,425,618		1,450,584
Other cash and in-kind donations	<u>384,106</u>			<u>384,106</u>
Total	<u>\$ 645,482</u>	<u>\$ 1,425,618</u>	<u>\$ 614,789</u>	<u>\$ 2,685,889</u>

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 3 – CONTRIBUTIONS - continued

For the year ended June 30, 2019

Donors	Cash	Materials and Services	Total
City of Fullerton	\$ 230,194		\$ 230,194
CSUF		\$ 572,846	572,846
Other cash and in-kind donations	286,950		286,950
Total	<u>\$ 517,144</u>	<u>\$ 572,846</u>	<u>\$ 1,089,990</u>

For the years ended June 30, 2020 and 2019, the Authority received in-kind donations of materials and services worth \$614,789 and \$572,846 respectively, which were recorded as contributions and expenses at the time the materials were received and the services were rendered.

In accordance with Accounting for Contributed Services, volunteer services should not be recognized and were not recognized in the accompanying financial statements.

NOTE 4 – CAPITAL ASSETS

Capital assets are as follows:

	June 30,	
	2020	2019
Building and improvements	\$ 3,895,746	\$ 3,895,746
Improvements other than buildings	630,094	630,094
Equipment	368,209	368,209
Furnishings	10,000	10,000
Property, plant and equipment gross	4,904,049	4,904,049
Less: accumulated depreciation	<u>(2,658,648)</u>	<u>(2,477,832)</u>
Capital assets, net	<u>\$ 2,245,401</u>	<u>\$ 2,426,217</u>

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense for the years ended June 30, 2020 and 2019 was \$180,115 and \$183,514 respectively.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally Accepted Accounting Principles (GAAP) emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and defines 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.

As a basis for considering market participant assumptions in fair market value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs utilize quoted prices in active market for identical assets or liabilities that we have the ability to access. Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair values of assets measured on a recurring basis at June 30, 2020 and 2019 are as follows:

	Fair Value	Level 2
Investments		
2020	\$ 3,129,958	\$ 3,129,958
2019	\$ 1,731,686	\$ 1,731,686

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 5 – FAIR VALUE MEASUREMENTS - continued

Fair values for cash, receivables investments, endowment funds, other assets and liabilities are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE 6 – INVESTMENTS

The Authority has placed funds in an investment pool consisting of marketable securities with the CSUF Philanthropic Foundation. The fair market value of their pool allocated to the Authority for the years ending June 30, 2020 and 2019 were \$3,129,958 and \$1,731,686 respectively.

NOTE 7 – OTHER ASSETS

The Authority recognized the costs associated with the construction of its website as an asset on the financial statements in 2019. The total cost of the construction in progress as of June 30, 2019 was \$13,391. During September of 2019, the website was completed and the Authority began amortizing the website over an estimated useful life of 3 years. The net value of the website as of June 30, 2020 was \$16,798

Amortization expense for the year ended June 30, 2020 was \$3,360.

NOTE 8 – LEASE COMMITMENT

The Authority leases approximately twenty-six acres of land from the Trustees. The lease expires on December 3, 2020, and requires no lease payments. No amount was recorded in the financial statements as the value is undeterminable.

NOTE 9 – COMMITMENTS, CONTINGENCIES, AND RISKS

Due to the State mandated shutdown of public places caused by the Global Coronavirus Outbreak, the Arboretum has been closed since March of 2020. This closure has impacted the operating revenue of the Authority, however, the Authority has been able to maintain its conservation efforts. Until the State protocols change the Authority will continue to bar the public from the Arboretum.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 10 - INSURANCE

General Liability

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omissions, and natural disasters for which the Authority carries commercial insurance. The Authority purchases commercial insurance to cover the risk of loss for property and business liability. There are no known claims or incidents that may result in the assertion of material claims arising from potential losses as of June 30, 2020 and 2019.

NOTE 11 - RELATED PARTY TRANSACTIONS

As noted in note 1, the Authority is a nonprofit governmental agency created through a Joint Powers Agreement between the City of Fullerton and the Trustees. As noted in notes 2, 3, and 4, the Authority uses CSUF and certain auxiliaries of CSUF for depositing purposes, in addition to contributions and lease agreements. As noted in notes 3 and 6, the Authority utilizes the exempt organization, Friends of the Fullerton Arboretum for investing and fund raising purposes. None of these entities are under the control of the other.

NOTE 12 – ENDOWMENT FUNDS

The Board of Directors of the Authority have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Authority classifies as non-expendable net position (a) the original value of the gifts donated as a non-expendable endowment, (b) the original value of subsequent gifts donated as a non-expendable endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the endowment fund that is not classified as a non-expendable net position is classified as unrestricted and are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 12 – ENDOWMENT FUNDS - continued

Investment Policy for Endowment Funds

The Authority has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to the Arboretum supported by its endowment assets while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a diversified asset mix, which includes equity, debt securities and mutual funds, which are intended to result in a consistent inflation-protected rate of return. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy for Endowment Funds

The Authority has a policy of using donor restricted gifts in the manner specified by the donor. Currently, these earnings from these funds have not been distributed. In establishing this policy, the Authority considered the long-term expected return on its investment assets, the nature and duration of the endowment fund which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The policy is consistent with the Authority’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net position consisted of the following as of June 30, 2020:

	Unrestricted	Restricted	Total
Endowments provided by			
Friends of the Fullerton			
Arboretum	\$ -	\$ 1,425,618	\$ 1,425,618

The Authority did not have an endowment as of June 30, 2019.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE 12 – ENDOWMENT FUNDS - continued

Changes in endowment net position as of June 30, 2020 are as follows:

	Unrestricted	Restricted		Total
		Expendable	Non-expendable	
Endowments net position, as of June 30,2019	\$ -	\$ -		
Contributions			\$ 1,425,618	\$ 1,425,618
Investment return:				
Investment income				
Net appreciation (Realized/unrealized gains losses)				
Investment management fees				
Investment return, net				
Endowments net position, as of June 30,2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,425,618</u>	<u>\$ 1,425,618</u>