

FULLERTON ARBORETUM AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

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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, 2018 and 2017, 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

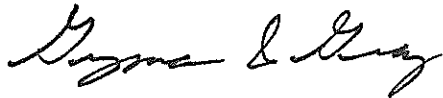
Unmodified Opinion

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, 2018 and 2017, 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
August 28, 2018

FULLERTON ARBORETUM AUTHORITY
STATEMENT OF NET POSITION

JUNE 30, 2018 AND 2017

ASSETS

	June 30	
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 840,803	\$ 785,655
Pledge receivable	12,000	
Prepaid expenses	4,618	4,550
TOTAL CURRENT ASSETS	857,421	790,205
FIXED ASSETS		
Capital assets, net	2,586,985	2,713,806
INVESTMENTS	1,665,389	1,605,868
TOTAL ASSETS	<u>\$ 5,109,795</u>	<u>\$ 5,109,879</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 5,408	\$ 5,250
Accrued vacation and benefits	45,438	46,212
TOTAL LIABILITIES	<u>50,846</u>	<u>51,462</u>
NET POSITION		
Investment in capital assets, net of related debt	2,586,985	2,713,806
Restricted for:		
Programs	183,337	230,482
Unrestricted	<u>2,288,627</u>	<u>2,114,129</u>
TOTAL NET POSITION	<u>5,058,949</u>	<u>5,058,417</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,109,795</u>	<u>\$ 5,109,879</u>

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, 2018 AND 2017

	June 30	
	2018	2017
OPERATING REVENUE		
Contributions	\$ 571,587	\$ 631,761
Programs fees	74,723	97,282
In-kind goods and services	514,749	448,910
TOTAL OPERATING REVENUE	1,161,059	1,177,953
OPERATING EXPENSES		
Salaries and benefits	807,998	795,296
Supplies and services	33,489	46,346
Contractual services	41,635	11,412
Telephone	2,695	970
Postage	117	117
Insurance	23,770	28,154
Printing and duplicating	937	1,993
Travel	3,302	152
Advertising and public relations	7,526	7,908
Equipment leases	595	884
Depreciation	178,172	176,269
Payroll tax and processing	26,881	22,111
Memberships and subscriptions	2,573	2,632
Maintenance	33,973	85,977
Utilities	75,319	33,914
Miscellaneous	588	2,194
TOTAL OPERATING EXPENSES	1,239,570	1,216,329
OPERATING LOSS	(78,511)	(38,376)
NONOPERATING INCOME		
Unrealized gain	74,963	121,482
Interest income	3,925	1,570
Other	155	123
TOTAL NONOPERATING INCOME	79,043	123,175
CHANGE IN NET POSITION	532	84,799
NET POSITION - BEGINNING OF YEAR	5,058,417	4,973,618
NET POSITION - END OF YEAR	\$ 5,058,949	\$ 5,058,417

See Independent Auditors' Report and Notes to Financial Statements.

FULLERTON ARBORETUM AUTHORITY
STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from contributions and customers	\$ 634,310	\$ 729,043
Payments owed to suppliers	5,408	5,250
Payments to suppliers	(161,290)	(193,868)
Payments to employees	(391,451)	(401,242)
NET CASH PROVIDED BY OPERATING ACTIVITIES	86,977	139,183
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(51,351)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(51,351)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and other income	4,080	1,694
Transfers from investments	15,442	14,800
NET CASH PROVIDED BY INVESTING ACTIVITIES	19,522	16,494
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,148	155,677
CASH AND CASH EQUIVALENTS		
Beginning of year	785,655	629,978
End of year	\$ 840,803	\$ 785,655
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (78,511)	\$ (38,376)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	178,172	176,269
Change in current assets and liabilities:		
Pledge receivable	(12,000)	
Prepaid expenses	(68)	115
Accounts payable	158	171
Accrued vacation and benefits	(774)	1,004
Net cash provided by operating activities	\$ 86,977	\$ 139,183

See Independent Auditors' Report and Notes to Financial Statements.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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, 2018 and 2017

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.

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

Permanently restricted net position – Net position subject to donor-imposed stipulations that they be maintained permanently by the Authority. The Authority did not have any such net position during the year.

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.

Pledge Receivable

Pledge receivable represent promises from donors to make a gift or philanthropic grant in the future. There was a pledge received before June 30, 2018 and collected in July 2018.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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, 2018 and 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2018 and 2017:

	2018	2017
Cash deposited with CSUF	\$ 339,605	\$ 172,265
Cash deposited with CSUF ASC	147,543	77,554
Cash deposited with CSFPF	<u>353,655</u>	<u>535,836</u>
Total cash deposits	<u>\$ 840,803</u>	<u>\$ 785,655</u>

For the years ended June 30, 2018 and 2017, 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, 2018

Donors	Cash	Materials and Services	Total
City of Fullerton	\$ 222,196	\$	\$ 222,196
CSUF		514,749	514,749
Friends of the Fullerton Arboretum	125,000		125,000
Other cash and in-kind donations	<u>224,391</u>		<u>224,391</u>
Total	<u>\$ 571,587</u>	<u>\$ 514,749</u>	<u>\$ 1,086,336</u>

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

NOTE 3 – CONTRIBUTIONS - continued

For the year ended June 30, 2017

Donors	Cash	Materials and Services	Total
City of Fullerton	\$ 217,413	\$	\$ 217,413
CSUF		448,910	448,910
Friends of the Fullerton Arboretum	118,550		118,550
Other cash and in-kind donations	295,798		295,798
Total	<u>\$ 631,761</u>	<u>\$ 448,910</u>	<u>\$ 1,080,671</u>

For the years ended June 30, 2018 and 2017, the Authority received in-kind donations of materials and services worth \$514,749 and \$448,910 respectively, which were recorded as contributions and expenses at the time the materials were received and the services were rendered.

For the years ended June 30, 2018 and 2017, the Authority received in-kind volunteer services of 20,318 and 20,606 hours respectively. In accordance with Accounting for Contributed Services, the volunteer services described above should not be recognized and were not recognized in the accompanying financial statements.

NOTE 4 – CAPITAL ASSETS

Capital assets are as follows:

	June 30,	
	2018	2017
Building and improvements	\$ 3,895,746	\$ 3,895,746
Improvements other than buildings	630,094	630,094
Equipment	345,464	294,113
Furnishings	10,000	10,000
Property, plant and equipment gross	4,881,304	4,829,953
Less: accumulated depreciation	<u>(2,294,319)</u>	<u>(2,116,147)</u>
Capital assets, net	<u>\$ 2,586,985</u>	<u>\$ 2,713,806</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$178,172 and \$176,269 respectively.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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, 2018 and 2017 are as follows:

	<u>Fair Value</u>	<u>Level 2</u>
Investments		
2018	\$ 1,665,389	\$ 1,665,389
2017	\$ 1,605,868	\$ 1,605,868

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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, 2018 and 2017 were \$1,665,389 and \$1,605,868 respectively.

NOTE 7 – 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 8 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2018 and 2017, in the opinion of the Authority's management, there were no outstanding matters that would have a significant effect on the financial position of the Authority.

NOTE 9 - 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, 2018 and 2017.

FULLERTON ARBORETUM AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

NOTE 10 - SUBSEQUENT EVENTS

In August 2018, the Authority began discussions with the Friends of the Fullerton Arboretum, a non-profit organization, about the nature of the ownership of investments held under the name of the Friends of the Fullerton Arboretum. Both parties agree that historically these investments were intended for the benefit of the Authority. The intent of the discussions is to execute a formal trust agreement between both parties transferring ownership of the investments to the Authority. Due to the contingent nature of ownership by the Authority, the investments are not shown on the financial statements. Fair value of the investments as of June 30, 2018 is \$1,316,411.

Management has evaluated subsequent events to determine if events or transactions occurring through August 28, 2018, the date the financial statements were available to be issued, require adjustments to, or disclosure in the financial statement.

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.