

**DESCANSO GARDENS GUILD, INC.**



**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

**EGAN & EGAN**  
**Certified Public Accountants**

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Corporation)

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**Years ended December 31, 2015 and 2014**

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)

Financial Statements with Independent Auditors' Report

December 31, 2015 and 2014

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# **EGAN & EGAN**

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## **Independent Auditors' Report**

To the Board of Trustees  
Descanso Gardens Guild, Inc.

### **Introduction**

We have audited the accompanying statements of financial position of Descanso Gardens Guild, Inc., (the "Guild") as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 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 Descanso Gardens Guild, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Egan & Egan*

May 20, 2016

**DESCANSO GARDENS GUILD, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**As of December 31, 2015 and 2014**

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets		
Operating cash	\$ 278,237	412,709
Operating reserve cash	379,297	300,574
Temporarily restricted cash	<u>10,862</u>	<u>228,856</u>
	668,396	942,139
Receivables	177,944	17,880
Gift shop inventory	205,535	223,648
Prepaid expenses	<u>34,293</u>	<u>33,948</u>
Total current assets	1,086,168	1,217,615
Designated Cash & Investments		
Temporarily restricted fund	224,226	251,759
Endowment fund	1,630,950	1,682,028
Property and equipment, net	<u>4,780,711</u>	<u>4,580,946</u>
Total assets	\$ <u>7,722,055</u>	<u>7,732,348</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 142,991	259,955
Wages payable	43,800	29,255
Accrued expenses	65,112	163,209
Deferred revenues	<u>194,430</u>	<u>228,193</u>
Total current liabilities	446,333	680,612
Net assets		
Unrestricted	6,077,047	5,724,955
Temporarily restricted	320,425	448,531
Permanently restricted	<u>878,250</u>	<u>878,250</u>
	<u>7,275,722</u>	<u>7,051,736</u>
Total liabilities and net assets	\$ <u>7,722,055</u>	<u>7,732,348</u>

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

**DESCANSO GARDENS GUILD, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the Year Ended December 31, 2015**

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>		<u>TOTAL</u>
		<u>TEMPORARILY</u>	<u>PERMANENTLY</u>	
<b>Revenues and other support</b>				
Sales, rentals, and programs	\$ 1,592,776			1,592,776
Admissions	1,017,233			1,017,233
Management fee	269,621			269,621
Other revenue	1,809			1,809
Sub-total, revenues	<u>2,881,439</u>			<u>2,881,439</u>
Memberships	1,064,468			1,064,468
Contributions	770,691	151,024		921,715
In-kind donation	100,000			100,000
Net assets released from restrictions	279,130	(279,130)		
Sub-total, contributed sources	<u>1,935,159</u>	<u>151,024</u>		<u>2,086,183</u>
Total revenues and other support	<u>5,095,728</u>	<u>(128,106)</u>		<u>4,967,622</u>
<b>Expenses</b>				
Program services	3,917,498			3,917,498
Management and general	416,564			416,564
Fundraising	541,302			541,302
Total expenses	<u>4,875,364</u>			<u>4,875,364</u>
Changes in net assets from operations	<u>220,364</u>	<u>(128,106)</u>		<u>92,258</u>
<b>Other changes</b>				
Net insurance proceeds	111,392			111,392
Realized or unrealized gains on investments, net	20,336			20,336
Change in net assets	352,092	(128,106)		223,986
Net assets, beginning of year	<u>5,724,955</u>	<u>448,531</u>	<u>878,250</u>	<u>7,051,736</u>
Net assets, end of year	<u>\$ 6,077,047</u>	<u>320,425</u>	<u>878,250</u>	<u>7,275,722</u>

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

**DESCANSO GARDENS GUILD, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the Year Ended December 31, 2014**

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>		<u>TOTAL</u>
		<u>TEMPORARILY</u>	<u>PERMANENTLY</u>	
<b>Revenues and other support</b>				
Sales, rentals, and programs	1,501,924			1,501,924
Admissions	939,775			939,775
Management fee	269,243			269,243
Other revenue	3,807			3,807
Sub-total, revenues	<u>2,714,749</u>			<u>2,714,749</u>
Memberships	\$ 1,001,061			1,001,061
Contributions	692,623	350,000		1,042,623
Governmental support, in-kind	720,000			720,000
Net assets released from restrictions	150,619	(150,619)		
Sub-total, contributed sources	<u>2,413,684</u>	<u>350,000</u>		<u>2,763,684</u>
Total revenues and other support	<u>5,279,052</u>	<u>199,381</u>		<u>5,478,433</u>
<b>Expenses</b>				
Program services	3,837,241			3,837,241
Management and general	506,032			506,032
Fundraising	466,605			466,605
Total expenses	<u>4,809,878</u>			<u>4,809,878</u>
Changes in net assets from operations	<u>469,174</u>	<u>199,381</u>		<u>668,555</u>
<b>Other changes</b>				
Net insurance proceeds	280,089			280,089
Realized or unrealized gains on investments, net	90,311			90,311
Change in net assets	839,574	199,381		1,038,955
Net assets, beginning of year	<u>4,885,381</u>	<u>249,150</u>	<u>878,250</u>	<u>6,012,781</u>
Net assets, end of year	<u>\$ 5,724,955</u>	<u>448,531</u>	<u>878,250</u>	<u>7,051,736</u>

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

**DESCANSO GARDENS GUILD, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2015**

	<u>PROGRAM</u>	<u>SUPPORTING SERVICES</u>		<u>TOTAL</u>
	<u>SERVICES</u>	<u>MANAGEMENT</u>	<u>FUNDRAISING</u>	
		<u>&amp; GENERAL</u>		
Advertising	\$ 22,919			22,919
Bank and credit card fees	54,429	12,561	16,748	83,738
Catering	27,817	6,300	8,000	42,117
Cost of sales	425,853			425,853
Depreciation	374,923	44,108	22,054	441,085
Dues, subscriptions and books	17,291	2,162	2,162	21,615
Event expense			18,661	18,661
Fees and honorariums	87,392			87,392
Insurance	66,984	28,708		95,692
Legal and Accounting		17,964		17,964
Miscellaneous	14,830	870	1,715	17,415
Office rental	12,387	9,291	9,291	30,969
Office supplies	55,428	7,390	11,085	73,903
Plants and horticultural supplies	49,307			49,307
Postage and freight	27,013	1,801	7,203	36,017
Printing and copying	95,480		23,870	119,350
Professional contract	378,223	22,248	44,497	444,968
Professional development	9,850	1,231	1,231	12,312
Repairs and maintenance	221,119			221,119
Salaries and benefits	1,772,710	236,361	354,542	2,363,613
Supplies	34,630			34,630
Taxes and licenses	6,150	6,151		12,301
Telephone	14,014	824	1,649	16,487
Utilities	148,749	18,594	18,594	185,937
	<u>\$ 3,917,498</u>	<u>416,564</u>	<u>541,302</u>	<u>4,875,364</u>

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



**DESCANSO GARDENS GUILD, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2014**

	<u>PROGRAM</u>	<u>SUPPORTING SERVICES</u>		
	<u>SERVICES</u>	<u>MANAGEMENT</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
		<u>&amp; GENERAL</u>		
Advertising	\$ 26,274			26,274
Bank charges	48,291	4,795	12,229	65,315
Catering	34,236	9,624	2,731	46,591
Cost of sales	361,565			361,565
Depreciation	307,711	57,696	19,233	384,640
Dues, subscriptions and books	5,218	8,742	2,739	16,699
Event expense			115,003	115,003
Fees and honorariums	89,847			89,847
Insurance	57,080	26,861		83,941
Legal and Accounting		11,300		11,300
Miscellaneous	9,087	1,445	331	10,863
Office rental	10,225	10,225	10,225	30,675
Office supplies	79,045	13,157	16,661	108,863
Plants and horticultural supplies	45,913			45,913
Postage and freight	20,102	3,817	1,527	25,446
Printing and copying	88,895		16,556	105,451
Professional contract	425,591	64,356	598	490,545
Professional development	5,925	179	453	6,557
Repairs and maintenance	315,011			315,011
Salaries and benefits	1,637,135	270,312	264,154	2,171,601
Supplies	31,506			31,506
Taxes and licenses	910	4,475		5,385
Telephone	15,560	2,148	1,751	19,459
Utilities	222,114	16,900	2,414	241,428
	<u>\$ 3,837,241</u>	<u>506,032</u>	<u>466,605</u>	<u>4,809,878</u>

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

**DESCANSO GARDENS GUILD, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ <u>223,986</u>	<u>1,038,955</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net insurance proceeds	(111,392)	(280,089)
Depreciation	441,085	384,640
Noncash contributions	(100,000)	(720,000)
Realized and unrealized gains on investments	(20,336)	(90,311)
Changes in operating assets and liabilities		
Receivables	(160,064)	19,585
Gift shop inventory	18,113	(41,085)
Prepaid expenses	(345)	(24,959)
Accounts payable	(116,964)	124,645
Wages payable	14,545	(16)
Accrued expenses	(98,097)	101,714
Deferred revenues	(33,763)	(4,992)
Total adjustments	<u>(167,218)</u>	<u>(530,868)</u>
Net cash provided by operating activities	<u>56,768</u>	<u>508,087</u>
<b>Cash flows from investing activities</b>		
Net change in invested funds	71,414	(582,582)
Capital expenditures	<u>(540,850)</u>	<u>(371,737)</u>
Net cash used by investing activities	<u>(469,436)</u>	<u>(954,319)</u>
<b>Net cash flows from financing activities</b>		
Proceeds from contributions	27,533	251,759
Net insurance proceeds	<u>111,392</u>	<u>280,089</u>
Net cash provided by financing activities	<u>138,925</u>	<u>531,848</u>
Net (decrease) increase in cash and cash equivalents	(273,743)	85,616
Cash, beginning of year	<u>942,139</u>	<u>856,523</u>
Cash, end of year	<u>\$ <u>668,396</u></u>	<u><u>942,139</u></u>

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

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

Descanso Gardens Guild, Inc., (the "Guild") is a nonprofit organization whose mission is to practice exemplary stewardship of Descanso Gardens distinctive character and assets; offer people an experience close to nature; and cultivate understanding of the natural world and people's place in it through inspiration, education and example. The Guild was formed in 1960 and operates out of facilities at the Descanso Gardens (the "Gardens").

The Gardens are located in La Cañada Flintridge, California, and were established in 1937. The Gardens are owned by the County of Los Angeles and encompasses 160 acres of land. The Gardens contain a variety of floral and horticultural exhibits and are open to members and the general public.

Net Assets

The Guild reports information regarding its activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* - Net assets representing resources generated from operations that are not subject to donor imposed restrictions.

*Temporarily Restricted Net Assets* - Net assets subject to donor imposed stipulations that will be met either by actions of the Guild and/or the passage of time.

*Permanently Restricted Net Assets* - Net assets subject to donor imposed stipulations that must be maintained permanently by the Guild. Generally, the donors of these assets permit the Guild to use all of the income earned on related investments for general purposes. Accordingly, the income from these net assets is presented on the accompanying statements of activities as unrestricted.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the statements of activities.

The Endowment fund, included in the accompanying statements of financial position, includes investments temporarily and permanently restricted as to use.

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)  
Notes to Financial Statements  
December 31, 2015 and 2014

Inventory

Inventory of the gift shop is stated at the lower of cost (first-in, first-out) or net realizable value.

Property and equipment

Property and equipment is recorded at cost and depreciated over estimated useful lives of three to ten years, using the straight-line method. Leasehold improvements are depreciated over the shorter of the life of the lease or the useful life of the improvement. Donations of property and equipment are recorded as contributions at their estimated fair market value. Maintenance and repairs are charged to expense as incurred. Upon the disposal or retirement of property and equipment, the asset and related accumulated depreciation is removed from the statement of financial position. Any gain or loss is included in the accompanying statement of activities.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes an unconditional promise to donate to the Guild. Upon the expiration of a temporary restriction or the fulfillment of the stipulation, temporarily restricted assets are reclassified to unrestricted net assets.

Cash and cash investments

The Guild places its cash and cash investments with insured financial institutions. At times, balances may exceed Federal insurance limits. The Guild does not believe it is exposed to significant credit risk with respect to cash and cash equivalents.

Functional Expense Allocation

The costs of providing various program and supporting services are summarized on a functional basis in the statements of functional expense. Certain costs have been allocated among program and supporting services benefitted based on how employees spend their time and the purpose of the services.

Cash and cash equivalents

For purposes of the statements of cash flows, the Guild considers all unrestricted highly liquid investments with an initial maturity of six months or less to be cash.

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)  
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December 31, 2015 and 2014

Deferred revenues

Deferred revenues consist of deposits received for future rental events and meetings to be held at the Gardens subsequent to the close of the financial year. The revenue from these events will be recognized as and when the event occurs.

The County management fee is recognized ratably as earned.

Contributed Services

Volunteers donate time and services to the Gardens' operations. Under Generally Accepted Accounting Principles, contributed services are recognized by the Gardens if the services received a) create or enhance long-lived assets or b) require specialized skills that would need to be purchased if not provided by donation.

Income taxes

The Guild is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is subject to income tax on net income from nontraditional and unrelated business activities. The Guild does not believe it has any uncertain tax positions. The Guild's Federal and State income tax returns for the prior three and four years, respectively are open for examination by the taxing authorities.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from management's estimates.

Subsequent Events

The Guild has evaluated subsequent events through the date at which the financial statements were available to be issued. No material subsequent events required disclosure.

**NOTE 2 - MANAGEMENT AGREEMENT**

The Guild is a party to a formal agreement with the County of Los Angeles ("the County") in which it manages, operates and maintains the Gardens, including the grounds, buildings, facilities, and other improvements thereon. During the year ended December 31, 2014, the Guild negotiated a new agreement with the County under similar terms. The Agreement expires October 31, 2024 with one five-year option. The Guild reimburses the County for certain salaries and benefits. For the years ended December 31, 2015 and 2014, the Guild received \$269,621 and \$269,243 of management fees for each year, respectively. It reimbursed the County \$74,478 and \$74,974 for salaries and benefits for the years ended December 31, 2015 and 2014, respectively.

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 2 - MANAGEMENT AGREEMENT continued**

The original value of land and buildings occupied and operated by the Guild are not included in the accompanying statements of financial position. Title to such land and buildings is held by the County.

**NOTE 3 - DESIGNATED CASH & INVESTMENTS**

Designated cash and investments include the following endowment funds:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Endowment funds:		
Permanently restricted	878,250	878,250
Board designated	752,700	803,778
	<u>\$ 1,630,950</u>	<u>1,682,028</u>

The temporarily restricted and endowment funds are comprised of the following:

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Temporarily restricted fund				
Mutual funds	\$ <u>236,119</u>	<u>224,226</u>	<u>253,104</u>	<u>251,759</u>
Endowment funds				
Cash	\$ 23,030	23,030	66,343	66,343
Equities	1,364,623	1,289,052	813,489	1,029,338
Mutual funds	<u>329,556</u>	<u>318,868</u>	<u>555,938</u>	<u>586,347</u>
	<u>\$ 1,717,209</u>	<u>1,630,950</u>	<u>1,435,770</u>	<u>1,682,028</u>

Fair value measurements define valuation techniques for investments using levels. Level 1 valuation is based upon quoted market prices in active markets that are accessible at the measurement date for identical assets or liabilities. Guild investments are carried at fair value based upon Level 1 valuation techniques.

The investment return is comprised of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ <u>30,036</u>	<u>38,162</u>
Net change in unrealized gain on investments reported at fair value	<u>(9,700)</u>	<u>52,149</u>
Total investment return	<u>\$ 20,336</u>	<u>90,311</u>

**DESCANSO GARDENS GUILD, INC.**  
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**NOTE 4 - RECEIVABLES**

Receivables consist of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Contributions receivable	\$ 171,150	3,735
Other receivables	6,794	14,145
	<u>\$ 177,944</u>	<u>17,880</u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Vehicles	\$ 344,193	240,804
Equipment	79,604	69,595
Leasehold improvements	6,106,692	5,703,830
Furniture & fixtures	198,761	114,683
Improvements in progress	164,096	123,584
	<u>6,893,346</u>	<u>6,252,496</u>
Accumulated depreciation	<u>(2,112,635)</u>	<u>(1,671,550)</u>
	<u>\$ 4,780,711</u>	<u>4,580,946</u>
Depreciation expense	<u>\$ 441,085</u>	<u>384,640</u>

**NOTE 6 - CONCENTRATION OF CREDIT RISK**

Certain financial instruments potentially subject the Guild to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, investments, and receivables. The Guild places its cash and cash equivalents with high credit quality financial institutions. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Guild and its beneficiaries. The Guild's receivables do not represent significant concentrations of credit risk due to the nature of the Guild's operations. Receivables are principally due from donors and to date, the Guild has not experienced any material loss on these instruments.

**DESCANSO GARDENS GUILD, INC.**  
(A California Nonprofit Organization)  
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**NOTE 7 - EMPLOYEE BENEFIT PLAN**

The Guild sponsors the Descanso Gardens Guild Plan (the "Plan"), a defined contribution plan. The Plan covers eligible employees who meet certain age and service requirements. Contributions to the Plan are made through elective employee deferrals and employer discretionary contributions. No employer contributions were made for the years ended December 31, 2015 and 2014, respectively.

**NOTE 8 - LEASES**

The Guild leases certain trailers and equipment under operating leases expiring through 2017. Lease expense under these agreements for the years ended December 31, 2015 and 2014 was approximately \$31,977 and \$30,676, respectively.

Future minimum annual payments under the equipment operating lease agreements are as follows:

<u>Years Ended</u> <u>December 31,</u>	
2016	\$ 8,464
2017	<u>990</u>
	<u>\$ 9,454</u>

**NOTE 9 - COMMITMENTS**

The Guild is a party to an agreement which provides for the exclusive provision of food and beverage services at the Gardens. Under this agreement, the Guild receives a percentage of the gross receipts depending on the location of the sale or type of function served. The agreement expires May 31, 2025 with one five year option to extend.

The Guild has entered into an employment agreement with a key full-time employee which includes salary and other benefits. The agreement expires in August 2017.