

**DESCANSO GARDENS GUILD, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2017 AND 2016**

# DESCANSO GARDENS GUILD, INC.

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December 31, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Descanso Gardens Guild, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of the Descanso Gardens Guild, Inc. (the "Guild"), which comprise the statement of financial positions as of December 31, 2017 and 2016, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 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 Guild'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 Guild'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.

Board of Trustees  
Descanso Gardens Guild, Inc.  
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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guild as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 10 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Singer Lewak LLP*

May 21, 2018

**DESCANSO GARDENS GUILD, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2017 and 2016**

|   | 2017                 | 2016                |
|---|----------------------|---------------------|
| <b>ASSETS</b>                             |                      |                     |
| <b>Current assets</b>                     |                      |                     |
| Cash and cash equivalents                 | \$ 2,283,684         | \$ 2,080,269        |
| Investments                               | 373,581              | 50,000              |
| Accounts receivable                       | 147,714              | 221,829             |
| Grants receivable                         | 23,950               | 19,265              |
| Gift shop inventory                       | 303,966              | 247,467             |
| Prepaid expenses                          | 40,081               | 44,439              |
| Total current assets                      | 3,172,976            | 2,663,269           |
| <b>Noncurrent assets</b>                  |                      |                     |
| Restricted cash                           | 36,022               | 55,769              |
| Restricted investments                    | 2,440,645            | 1,842,580           |
| Equipment and leasehold improvements, net | 4,364,196            | 4,289,452           |
| <b>Total assets</b>                       | <b>\$ 10,013,839</b> | <b>\$ 8,851,070</b> |
| <b>LIABILITIES AND NET ASSETS</b>         |                      |                     |
| <b>Current liabilities</b>                |                      |                     |
| Accounts payable                          | \$ 680,133           | \$ 343,877          |
| Due to Los Angeles County                 | 9,917                | 24,280              |
| Accrued expenses                          | 315,649              | 334,752             |
| Deferred revenues                         | 838,162              | 630,012             |
| Total current liabilities                 | 1,843,861            | 1,332,921           |
| <b>Net assets</b>                         |                      |                     |
| Unrestricted                              | 6,846,305            | 6,318,410           |
| Temporarily restricted                    | 433,329              | 309,395             |
| Permanently restricted                    | 890,344              | 890,344             |
| Total net assets                          | 8,169,978            | 7,518,149           |
| <b>Total liabilities and net assets</b>   | <b>\$ 10,013,839</b> | <b>\$ 8,851,070</b> |

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

**DESCANSO GARDENS GUILD, INC.**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2017**  
**(With Summarized Information for the Year Ended December 31, 2016)**

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | <b>2017</b><br>Total | <b>2016</b><br>Total |
|--|---------------------|---------------------------|---------------------------|----------------------|----------------------|
| <b>Revenues and other support</b>                    |                     |                           |                           |                      |                      |
| Admissions   | \$ 5,147,269        | \$ -                      | \$ -                      | \$ 5,147,269         | \$ 3,615,185         |
| Sales, rentals, and programs                         | 1,820,255           | -                         | -                         | 1,820,255            | 1,712,341            |
| Memberships  | 1,489,135           | -                         | -                         | 1,489,135            | 1,188,625            |
| Contributions  | 450,733             | 341,859                   | -                         | 792,592              | 742,469              |
| Management fee                                       | 270,000             | -                         | -                         | 270,000              | 270,000              |
| Other revenue  | 3,357               | -                         | -                         | 3,357                | 5,388                |
| Investment income                                    | 23,001              | 21,385                    | -                         | 44,386               | 45,885               |
| In-kind donation                                     | 9,377               | -                         | -                         | 9,377                | 7,863                |
| Net assets released from restriction                 | 252,445             | (252,445)                 | -                         | -                    | -                    |
| Net assets released pursuant to<br>spend rate policy | 138,745             | (138,745)                 | -                         | -                    | -                    |
| Total revenues and other support                     | <u>9,604,317</u>    | <u>(27,946)</u>           | <u>-</u>                  | <u>9,576,371</u>     | <u>7,587,756</u>     |
| <b>Expenses</b>                                      |                     |                           |                           |                      |                      |
| Program services                                     | 7,587,703           | -                         | -                         | 7,587,703            | 6,260,331            |
| Management and general                               | 873,733             | -                         | -                         | 873,733              | 532,590              |
| Fundraising  | 805,961             | -                         | -                         | 805,961              | 643,180              |
| Total expenses                                       | <u>9,267,397</u>    | <u>-</u>                  | <u>-</u>                  | <u>9,267,397</u>     | <u>7,436,101</u>     |
| <b>Gains</b>   |                     |                           |                           |                      |                      |
| Gains on investments, net                            | 190,975             | 151,880                   | -                         | 342,855              | 90,772               |
| Change in net assets                                 | <u>527,895</u>      | <u>123,934</u>            | <u>-</u>                  | <u>651,829</u>       | <u>242,427</u>       |
| Beginning net assets                                 | <u>6,318,410</u>    | <u>309,395</u>            | <u>890,344</u>            | <u>7,518,149</u>     | <u>7,275,722</u>     |
| Ending net assets                                    | <u>\$ 6,846,305</u> | <u>\$ 433,329</u>         | <u>\$ 890,344</u>         | <u>\$ 8,169,978</u>  | <u>\$ 7,518,149</u>  |

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

**DESCANSO GARDENS GUILD, INC.**  
**STATEMENT OF ACTIVITES**  
**Year Ended December 31, 2016**

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|--|---------------------|---------------------------|---------------------------|---------------------|
| <b>Revenues and other support</b>                    |                     |                           |                           |                     |
| Admissions   | \$ 3,615,185        | \$ -                      | \$ -                      | \$ 3,615,185        |
| Sales, rentals, and programs                         | 1,712,341           | -                         | -                         | 1,712,341           |
| Memberships  | 1,188,625           | -                         | -                         | 1,188,625           |
| Contributions  | 658,571             | 71,804                    | 12,094                    | 742,469             |
| Management fee                                       | 270,000             | -                         | -                         | 270,000             |
| Other revenue  | 5,388               | -                         | -                         | 5,388               |
| Investment income                                    | 21,232              | 24,653                    | -                         | 45,885              |
| In-kind donation                                     | 7,863               | -                         | -                         | 7,863               |
| Net assets released from restriction                 | 97,391              | (97,391)                  | -                         | -                   |
| Net assets released pursuant to<br>spend rate policy | 63,908              | (63,908)                  | -                         | -                   |
| Total revenues and other support                     | <u>7,640,504</u>    | <u>(64,842)</u>           | <u>12,094</u>             | <u>7,587,756</u>    |
| <b>Expenses</b>                                      |                     |                           |                           |                     |
| Program services                                     | 6,260,331           | -                         | -                         | 6,260,331           |
| Management and general                               | 532,590             | -                         | -                         | 532,590             |
| Fundraising  | 643,180             | -                         | -                         | 643,180             |
| Total expenses                                       | <u>7,436,101</u>    | <u>-</u>                  | <u>-</u>                  | <u>7,436,101</u>    |
| <b>Gains</b>   |                     |                           |                           |                     |
| Gains on investments, net                            | 36,960              | 53,812                    | -                         | 90,772              |
| <b>Change in net assets</b>                          | <u>241,363</u>      | <u>(11,030)</u>           | <u>12,094</u>             | <u>242,427</u>      |
| <b>Beginning net assets</b>                          | 6,077,047           | 320,425                   | 878,250                   | 7,275,722           |
| <b>Ending net assets</b>                             | <u>\$ 6,318,410</u> | <u>\$ 309,395</u>         | <u>\$ 890,344</u>         | <u>\$ 7,518,149</u> |

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

**DESCANSO GARDENS GUILD, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2017**  
**(With Summarized Financial Information for the Year Ended December 31, 2016)**

|                                   | Program<br>Services        | Management<br>& General  | Fundraising              | <b>2017</b><br>Total       | <b>2016</b><br>Total       |
|-----------------------------------|----------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| <b>Personnel expenses</b>         |                            |                          |                          |                            |                            |
| Salaries                          | \$ 2,100,593               | \$ 428,350               | \$ 352,056               | \$ 2,880,999               | \$ 2,496,081               |
| Payroll taxes                     | 137,217                    | 27,981                   | 22,997                   | 188,195                    | 168,396                    |
| Employee benefits                 | 152,802                    | 31,159                   | 25,609                   | 209,570                    | 183,155                    |
| Total personnel expenses          | <u>2,390,612</u>           | <u>487,490</u>           | <u>400,662</u>           | <u>3,278,764</u>           | <u>2,847,632</u>           |
| <b>Other expenses</b>             |                            |                          |                          |                            |                            |
| Advertising                       | 48,480                     | -                        | -                        | 48,480                     | 8,796                      |
| Bank and credit card fees         | 185,589                    | 13,714                   | 19,833                   | 219,136                    | 122,121                    |
| Catering                          | 11,813                     | 34,956                   | 29,140                   | 75,909                     | 29,491                     |
| Cost of sales                     | 534,708                    | -                        | -                        | 534,708                    | 432,880                    |
| Dues, subscriptions and books     | 18,496                     | 12,189                   | 3,134                    | 33,819                     | 26,692                     |
| Event expense                     | -                          | -                        | 214,775                  | 214,775                    | 51,029                     |
| Fees and honorariums              | 116,156                    | -                        | -                        | 116,156                    | 102,595                    |
| Insurance                         | 95,892                     | 15,589                   | 7,759                    | 119,240                    | 101,074                    |
| Inventory Loss                    | 17,507                     | -                        | -                        | 17,507                     | -                          |
| Legal and accounting              | -                          | 36,819                   | -                        | 36,819                     | 15,500                     |
| Los Angeles County services       | 40,254                     | -                        | -                        | 40,254                     | 85,000                     |
| Maintenance supplies              | 51,472                     | -                        | -                        | 51,472                     | 38,677                     |
| Miscellaneous                     | 525                        | 2,257                    | 321                      | 3,103                      | 18,504                     |
| Office rental                     | 14,626                     | 10,969                   | 10,969                   | 36,564                     | 33,258                     |
| Office supplies                   | 106,195                    | 14,159                   | 21,239                   | 141,593                    | 171,264                    |
| Plants and horticultural supplies | 89,163                     | -                        | -                        | 89,163                     | 64,141                     |
| Postage and freight               | 40,791                     | 3,866                    | 7,088                    | 51,745                     | 41,480                     |
| Printing and copying              | 130,633                    | -                        | 32,658                   | 163,291                    | 158,508                    |
| Professional contract             | 2,394,679                  | 168,242                  | 4,498                    | 2,567,419                  | 2,088,860                  |
| Professional development          | 9,294                      | 4,474                    | 6,584                    | 20,352                     | 14,510                     |
| Repairs and maintenance           | 675,831                    | -                        | -                        | 675,831                    | 347,703                    |
| Taxes and licenses                | 33,579                     | 253                      | -                        | 33,832                     | 11,380                     |
| Telephone                         | 16,844                     | 991                      | 1,982                    | 19,817                     | 19,882                     |
| Utilities                         | 182,980                    | 22,873                   | 22,873                   | 228,726                    | 174,306                    |
| Total other expenses              | <u>4,815,507</u>           | <u>341,351</u>           | <u>382,853</u>           | <u>5,539,711</u>           | <u>4,157,651</u>           |
| <b>Depreciation</b>               | <u>381,584</u>             | <u>44,892</u>            | <u>22,446</u>            | <u>448,922</u>             | <u>430,818</u>             |
| <b>Total functional expenses</b>  | <u><b>\$ 7,587,703</b></u> | <u><b>\$ 873,733</b></u> | <u><b>\$ 805,961</b></u> | <u><b>\$ 9,267,397</b></u> | <u><b>\$ 7,436,101</b></u> |

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



**DESCANSO GARDENS GUILD, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2016**

|                                   | Program<br>Services        | Management<br>& General  | Fundraising              | Total                      |
|-----------------------------------|----------------------------|--------------------------|--------------------------|----------------------------|
| <b>Personnel expenses</b>         |                            |                          |                          |                            |
| Salaries                          | \$ 1,872,061               | \$ 249,608               | \$ 374,412               | \$ 2,496,081               |
| Payroll taxes                     | 126,297                    | 16,840                   | 25,259                   | 168,396                    |
| Employee benefits                 | 137,366                    | 18,316                   | 27,473                   | 183,155                    |
| <br>                              |                            |                          |                          |                            |
| Total personnel expenses          | <u>2,135,724</u>           | <u>284,764</u>           | <u>427,144</u>           | <u>2,847,632</u>           |
| <br>                              |                            |                          |                          |                            |
| <b>Other expenses</b>             |                            |                          |                          |                            |
| Advertising                       | 8,796                      | -                        | -                        | 8,796                      |
| Bank and credit card fees         | 84,042                     | 20,982                   | 17,097                   | 122,121                    |
| Catering                          | 5,074                      | 6,864                    | 17,553                   | 29,491                     |
| Cost of sales                     | 432,880                    | -                        | -                        | 432,880                    |
| Dues, subscriptions and books     | 13,560                     | 11,429                   | 1,703                    | 26,692                     |
| Event expense                     | -                          | -                        | 51,029                   | 51,029                     |
| Fees and honorariums              | 102,595                    | -                        | -                        | 102,595                    |
| Insurance                         | 70,752                     | 30,322                   | -                        | 101,074                    |
| Legal and accounting              | -                          | 15,500                   | -                        | 15,500                     |
| Los Angeles County services       | 85,000                     | -                        | -                        | 85,000                     |
| Maintenance supplies              | 38,677                     | -                        | -                        | 38,677                     |
| Miscellaneous                     | 18,504                     | -                        | -                        | 18,504                     |
| Office rental                     | 13,304                     | 9,977                    | 9,977                    | 33,258                     |
| Office supplies                   | 128,448                    | 17,126                   | 25,690                   | 171,264                    |
| Plants and horticultural supplies | 64,141                     | -                        | -                        | 64,141                     |
| Postage and freight               | 25,703                     | 3,904                    | 11,873                   | 41,480                     |
| Printing and copying              | 126,806                    | -                        | 31,702                   | 158,508                    |
| Professional contract             | 2,025,054                  | 60,062                   | 3,744                    | 2,088,860                  |
| Professional development          | 4,515                      | 5,287                    | 4,708                    | 14,510                     |
| Repairs and maintenance           | 347,703                    | -                        | -                        | 347,703                    |
| Taxes and licenses                | 6,514                      | 4,866                    | -                        | 11,380                     |
| Telephone                         | 16,900                     | 994                      | 1,988                    | 19,882                     |
| Utilities                         | 139,444                    | 17,431                   | 17,431                   | 174,306                    |
| <br>                              |                            |                          |                          |                            |
| Total other expenses              | <u>3,758,412</u>           | <u>204,744</u>           | <u>194,495</u>           | <u>4,157,651</u>           |
| <br>                              |                            |                          |                          |                            |
| <b>Depreciation</b>               | <u>366,195</u>             | <u>43,082</u>            | <u>21,541</u>            | <u>430,818</u>             |
| <br>                              |                            |                          |                          |                            |
| <b>Total functional expenses</b>  | <u><b>\$ 6,260,331</b></u> | <u><b>\$ 532,590</b></u> | <u><b>\$ 643,180</b></u> | <u><b>\$ 7,436,101</b></u> |

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

**DESCANSO GARDENS GUILD, INC.**  
**STATEMENTS OF CASH FLOWS**  
**December 31, 2017 and 2016**

|  | 2017                       | 2016                       |
|--|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>  |                            |                            |
| Change in net assets   | \$ 651,829                 | \$ 242,427                 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                            |                            |
| Gains on investments   | (342,855)                  | (90,772)                   |
| Depreciation expense   | 448,922                    | 430,818                    |
| Loss on disposal of equipment  | -                          | 164,096                    |
| Changes in operating assets and liabilities:   |                            |                            |
| Accounts receivable  | 74,115                     | (215,035)                  |
| Grants receivable  | (4,685)                    | 151,885                    |
| Gift shop inventory  | (56,499)                   | (41,932)                   |
| Prepaid expenses   | 4,358                      | (10,146)                   |
| Accounts payable   | 336,256                    | 200,886                    |
| Due to Los Angeles County  | (14,363)                   | (19,520)                   |
| Accrued expenses   | (19,103)                   | 269,641                    |
| Deferred revenues  | 208,150                    | 435,582                    |
|  | <u>1,286,125</u>           | <u>1,517,930</u>           |
| <b>Cash flows from investing activities</b>  |                            |                            |
| Purchases of investments   | (3,608,049)                | (399,810)                  |
| Proceeds from sales of investments   | 3,029,258                  | 453,177                    |
| Purchases of equipment and leasehold improvements  | (523,666)                  | (103,655)                  |
|  | <u>(1,102,457)</u>         | <u>(50,288)</u>            |
| <b>Net increase in cash, cash equivalents, and restricted cash</b>                           | 183,668                    | 1,467,642                  |
| <b>Cash, cash equivalents, and restricted cash, beginning of year</b>                        | <u>2,136,038</u>           | <u>668,396</u>             |
| <b>Cash, cash equivalents, and restricted cash, end of year</b>                              | <u><b>\$ 2,319,706</b></u> | <u><b>\$ 2,136,038</b></u> |

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

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF ORGANIZATION**

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 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 (the “County”) and encompass 160 acres of land. The Gardens contain a variety of floral and horticultural exhibits and are open to members and the general public.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared in conformity with the generally accepted accounting principles in the United States of America (U.S. GAAP).

Classes of Net Assets

Net assets of the Organization and changes therein have been classified and are reported as follows:

*Unrestricted Net Assets* – the part of the net assets of the Guild that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Guild and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

*Temporarily Restricted Net Assets* – the part of the net assets of the Guild resulting from contributions and other inflows of assets whose use by the Guild is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Guild pursuant to those stipulations and reclassifications to (from) other classes of net assets as a consequence of donor-imposed stipulations.

*Permanently Restricted Net Assets* – the part of the net assets of the Guild that includes those net assets that must be maintained in perpetuity; the investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, for purposes as approved by the board of directors.

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Guild considers all short-term and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 2017 and 2016, cash and cash equivalents included operating reserves totaling \$0 and \$307,595, respectively.

Investments

Investments are reported at fair value in the financial statements. Investment income, gains and losses are reported as unrestricted income unless their use is restricted by explicit donor-imposed stipulations.

Receivables

Accounts receivable consists of balances owed by ticket brokers for admissions during the current year. Grants receivables represent amounts due from donors for pledged financial commitments to the Guild's programs.

Gift Shop Inventory

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

Equipment and Leasehold Improvements

The Guild capitalizes equipment and leasehold improvements with a cost or, if donated, at fair market value at the date of donation, of \$2,500 or greater. Depreciation is computed using the straight-line method over the shorter of the term of the operating agreement or the estimated useful life of the related assets as follows:

|                        |              |
|------------------------|--------------|
| Vehicles               | 7 – 10 years |
| Equipment              | 10 years     |
| Furniture and fixtures | 5 – 10 years |
| Leasehold improvements | 5 – 30 years |

Impairment of Long-lived Assets

The Guild reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of the asset. As of December 31, 2017 and 2016, there were no indications that the long-lived assets are impaired.

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

The Guild recognizes membership revenues evenly during the membership term. Admissions revenue is recognized when the activity or event occurs.

Gifts of equipment and securities are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as temporarily restricted support until the assets are placed in service.

Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred.

Contributions, including unconditional promises to give, are reported as revenue in the period received and are considered available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, such as when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Deferred revenues consist of advanced ticket sales, unearned management fees, unearned memberships, and deposits received for future rental events and meetings to be held subsequent to year-end. Deferred revenues are recognized when the event occurs or when service performance has been completed.

Contributed services consist of volunteers donating time and service to the Guild's operations. The Guild recognizes contributed services if the services a) create or enhance long-lived assets or b) require specialized skills that would be purchased if not provided by donation.

Income Taxes

The Guild is exempt from income taxes under Internal Revenue Code §501(c)(3) and California Revenue and Taxation Code §23701(d).

The Guild recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Guild has not recorded any uncertain tax positions. During the years ended December 31, 2017 and 2016, the Guild did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Functional Allocation of Expenses

The costs of providing the Guild's programs and supporting services have been summarized on a functional basis in the statements of activities. Expenses that relate to more than one program or supporting activity or to a combination of program and supporting services are allocated among appropriate functions. Management uses an estimate to allocate these expenses based on time spent on related functions.

Concentrations of Credit Risk

*Cash and Cash Equivalents*

The Guild maintains its cash and cash equivalents accounts with high credit, quality financial institutions. At times during the year, cash in these accounts may exceed the insured limits. The Guild has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

*Investments*

The Guild holds investments in equities, bond and equity funds and exchange transfer funds (which consist of equity and fixed income securities). Invested funds are subject to certain risks, such as market fluctuation, credit risk, and changes in interest rates, which could result in losses in the event of adverse economic circumstances. The Guild attempts to limit its risk associated with investments through diversification and by utilizing the expertise and processes of an outside investment advisor.

Fair Value Measurements

As defined by U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

The Guild's investments are reflected at fair value based on quoted market prices. These are classified within Level 1 of the valuation hierarchy.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation with no impact on net assets or changes in net assets.

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for years beginning after December 15, 2018. The Guild has not yet selected a transition method and is currently evaluating the effect that the standard will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Guild for years beginning after December 15, 2018. The Guild does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements. The Guild elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such, these disclosures are not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the timing of expense recognition in the income statement. The new standard is effective for years beginning after December 15, 2019, including interim periods within those years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Guild is currently evaluating the impact of its pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in its financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for years beginning after December 15, 2017 and interim periods within years beginning after December 15, 2018, with early adoption permitted. The Guild is currently evaluating the impact the adoption of this guidance will have on its financial statements.

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for years beginning after December 15, 2018, with early adoption permitted. ASU 2016-18 must be applied using a retrospective transition method. The Guild elected to early adopt ASU 2016-18 with no material impact on its financial statements.

**NOTE 3 – MANAGEMENT AGREEMENT**

The Guild has an agreement with the County in which it manages, operates, and maintains the Gardens, including the grounds, buildings, facilities, and other improvements in exchange for a management fee. The agreement expires in October 2024 and includes one five-year renewal option.

The Guild reimburses the County for the services of a County employee assigned to the Gardens. For the years ended December 31, 2017 and 2016, the Guild reimbursed the County \$40,254 and \$85,000, respectively, for the services of the County employee.

**NOTE 4 – INVESTMENTS**

As of December 31, 2017 and 2016, investments consisted of equities, fixed income, exchange-traded funds and mutual funds invested as follows:

|                                  | 2017                | 2016                |
|----------------------------------|---------------------|---------------------|
| <b>Current—Unrestricted</b>      |                     |                     |
| Equities                         | \$ 305,743          | \$ 33,013           |
| Fixed income                     | 67,838              | 16,987              |
|                                  | 373,581             | 50,000              |
| <br><b>Noncurrent—Restricted</b> |                     |                     |
| Equities                         | 1,653,164           | 1,484,854           |
| Fixed income                     | 787,481             | 357,726             |
|                                  | 2,440,645           | 1,842,580           |
|                                  | <b>\$ 2,814,226</b> | <b>\$ 1,892,580</b> |



**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – INVESTMENTS (Continued)**

For the years ended December 31, 2017 and 2016, total investment gains (losses) is comprised of the following:

|                           | 2017              | 2016             |
|---------------------------|-------------------|------------------|
| Realized gains            | \$ 49,663         | \$ 96,688        |
| Unrealized gains (losses) | 293,192           | (5,916)          |
|                           | <b>\$ 342,855</b> | <b>\$ 90,772</b> |

**NOTE 5 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

As of December 31, 2017 and 2016, equipment and leasehold improvements consisted of the following:

|                          | 2017                | 2016                |
|--------------------------|---------------------|---------------------|
| Vehicles                 | \$ 430,693          | \$ 344,193          |
| Equipment                | 112,051             | 79,604              |
| Leasehold improvements   | 6,565,298           | 6,206,187           |
| Furniture & fixtures     | 248,529             | 202,921             |
|                          | 7,356,571           | 6,832,905           |
| Accumulated depreciation | (2,992,375)         | (2,543,453)         |
|                          | <b>\$ 4,364,196</b> | <b>\$ 4,289,452</b> |

Depreciation expense for the years ended December 31, 2017 and 2016 was \$448,922 and \$430,818, respectively.

The land and buildings occupied and operated by the Guild are not included in the financial statements, as title to such land and buildings is held by the County.

**NOTE 6 – LINE OF CREDIT**

The Guild has a revolving line of credit with a bank which allows for borrowings up to \$500,000 and is secured by the Guild’s receivables, gift shop inventory, and equipment. The borrowings bear interest at the greater of the prime rate plus 1.5% (6.0% at December 31, 2017) or 5.00%. The line of credit expires on June 10, 2018. As of December 31, 2017 and 2016, there was no balance outstanding.

**DESCANSO GARDENS GUILD, INC.**  
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**NOTE 7 – ENDOWMENTS**

Endowments consist of individual funds established by donors to provide annual funding for specific activities and general operations. The endowments also include certain unrestricted net assets designated for endowment by the board of trustees. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Guild classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Guild in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the following factors are to be considered in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Guild and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Guild
- The investment policies of the Guild

As of December 31, 2017, the Guild had the following endowment net asset composition by type of fund:

|                            | December 31, 2017          |                           |                           | Total                      |
|----------------------------|----------------------------|---------------------------|---------------------------|----------------------------|
|                            | Unrestricted               | Temporarily<br>Restricted | Permanently<br>Restricted |                            |
| Board-designated endowment | \$ 1,369,020               | \$ -                      | \$ -                      | \$ 1,369,020               |
| Donor-restricted endowment | -                          | 217,303                   | 890,344                   | 1,107,647                  |
| Total endowment funds      | <b><u>\$ 1,369,020</u></b> | <b><u>\$ 217,303</u></b>  | <b><u>\$ 890,344</u></b>  | <b><u>\$ 2,476,667</u></b> |

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 7 – ENDOWMENTS (Continued)**

As of December 31, 2016, the Guild had the following endowment net asset composition by type of fund:

|                              | December 31, 2016        |                          |                          | Total                      |
|------------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
|                              | Unrestricted             | Temporarily Restricted   | Permanently Restricted   |                            |
| Board-designated endowment   | \$ 794,222               | \$ -                     | \$ -                     | \$ 794,222                 |
| Donor-restricted endowment   | -                        | 213,783                  | 890,344                  | 1,104,127                  |
| <b>Total endowment funds</b> | <b><u>\$ 794,222</u></b> | <b><u>\$ 213,783</u></b> | <b><u>\$ 890,344</u></b> | <b><u>\$ 1,898,349</u></b> |

**Investment and Spending Policies**

Unless otherwise specified by the donors, the Guild’s spending policy for endowment funds is to transfer an amount equal to 4% of the average of the total account value as of December 31 of the preceding three years.

The Guild has adopted investment policies for endowment assets that enhance the Guild’s capabilities to execute its current mission in the short term and provide stability and institutional longevity over the very long term. Investments should be sufficiently diversified to provide total returns to achieve the preservation of capital, funding an annual transfer to support operations, protecting capital from inflation, and increasing capital while minimizing the risks inherent in market swings and economic conditions.

The asset allocation guidelines for the endowments are as follows:

|                           | Allocation Range | Target |
|---------------------------|------------------|--------|
| Equity investments        | 40% to 80%       | 65%    |
| Fixed income securities   | 20% to 60%       | 35%    |
| Cash and cash equivalents | 0% to 5%         | 0%     |

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 – ENDOWMENTS (Continued)**

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

|  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>               |
|--|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Endowment net assets –<br>December 31, 2015                                  | \$ 752,700                 | \$ 224,226                        | \$ 878,250                        | \$ 1,855,176               |
| Investment return  |                            |                                   |                                   |                            |
| Investment income, net of<br>fees  | 17,813                     | 24,653                            | -                                 | 42,466                     |
| Net unrealized gain  | 36,960                     | 53,812                            | -                                 | 90,772                     |
| Distributions  | (13,251)                   | (25,000)                          | -                                 | (38,251)                   |
| Appropriation of<br>endowment assets<br>pursuant to the spend<br>rate policy | -                          | (63,908)                          | -                                 | (63,908)                   |
| Contributions  | <u>-</u>                   | <u>-</u>                          | <u>12,094</u>                     | <u>12,094</u>              |
| Endowment net assets –<br>December 31, 2016                                  | 794,222                    | 213,783                           | 890,344                           | 1,898,349                  |
| Investment return  |                            |                                   |                                   |                            |
| Investment income, net of<br>fees  | 21,507                     | 21,385                            | -                                 | 42,892                     |
| Net unrealized gain  | 150,193                    | 151,880                           | -                                 | 302,073                    |
| Distributions  | (276,092)                  | (31,000)                          | -                                 | (307,092)                  |
| Appropriation of<br>endowment assets<br>pursuant to the spend<br>rate policy | -                          | (138,745)                         | -                                 | (138,745)                  |
| Contributions  | <u>679,190</u>             | <u>-</u>                          | <u>-</u>                          | <u>679,190</u>             |
| Endowment net assets –<br>December 31, 2017                                  | <u><b>\$ 1,369,020</b></u> | <u><b>\$ 217,303</b></u>          | <u><b>\$ 890,344</b></u>          | <u><b>\$ 2,476,667</b></u> |

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 - NET ASSETS**

Temporarily Restricted

As of December 31, 2017 and 2016, temporarily restricted net assets for specific programs are as follows:

|                      | <u>Balance at<br/>December 31,<br/>2016</u> | <u>Revenues</u>          | <u>Expenditures</u>        | <u>Balance at<br/>December 31,<br/>2017</u> |
|----------------------|---|--------------------------|----------------------------|---|
| SHG Term Endowment   | \$ 213,783                                  | \$ 34,520                | \$ (31,000)                | \$ 217,303                                  |
| School Program Buses | 97  | -                        | (97)                       | -   |
| Ahmanson Tractor     | -   | 86,500                   | (86,500)                   | -   |
| Arborjet             | 15,000                                      | -                        | -                          | 15,000                                      |
| Water Project        | 9,211                                       | -                        | -                          | 9,211                                       |
| Smith Natives        | 18,000                                      | -                        | (18,000)                   | -   |
| Smith Camellia       | -   | 15,000                   | -                          | 15,000                                      |
| ED Innovation Fund   | <u>53,304</u>                               | <u>240,359</u>           | <u>(116,848)</u>           | <u>176,815</u>                              |
|                      | <b><u>\$ 309,395</u></b>                    | <b><u>\$ 376,379</u></b> | <b><u>\$ (252,445)</u></b> | <b><u>\$ 433,329</u></b>                    |

Permanently Restricted

Permanently restricted net assets consist of endowment funds restricted by donors for investment in perpetuity. Earnings on endowment funds are available for the purposes specified by the donors, or in certain cases, for unrestricted use. The permanently restricted net assets balances for general use at December 31, 2017 and 2016 were \$890,344.

**NOTE 9 - COMMITMENTS**

Leases

The Guild leases office space on a month-to-month basis with payments of \$2,667 and leases warehouse storage on a quarterly basis with payments of \$13,500.

The Guild leases office equipment with monthly payments of \$521 through July 2020.

As of December 31, 2017, minimum payments on noncancelable leases for future years ending December 31 are as follows:

|      |                         |
|------|-------------------------|
| 2018 | \$ 6,000                |
| 2019 | 6,000                   |
| 2020 | <u>4,000</u>            |
|      | <b><u>\$ 16,000</u></b> |

**DESCANSO GARDENS GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**NOTE 9 – COMMITMENTS (Continued)**

Leases (Continued)

For the years ended December 31, 2017 and 2016, rent expense totaled \$104,432 and \$44,555, respectively.

Catering Agreement

The Guild has a catering agreement that provides a third party with exclusive rights to conduct all food and beverage operations at the Gardens. The Guild receives 10% of gross sales from the café and special events and 15% of gross sales from catering events. The agreement expires in May 2025 and includes a five-year renewal option.

**NOTE 10 – RESTATEMENT**

Subsequent to the issuance of the Guild’s 2016 financial statements, management determined the Guild incorrectly reported deferred revenues related to advance ticket sales and memberships. In addition, certain accrued expenses of \$48,274 were adjusted in 2016 as a part of this restatement. The 2016 financial statements have been restated for these matters as follows:

|                         | <u>As Previously<br/>Reported</u> | <u>As<br/>Restated</u> |
|-------------------------|-----------------------------------|------------------------|
| Deferred revenues       | \$ 195,170                        | \$ 630,012             |
| Unrestricted net assets | 6,801,026                         | 6,318,410              |
| Total net assets        | 8,001,265                         | 7,518,149              |
| Admissions revenues     | 3,927,502                         | 3,615,185              |
| Membership revenues     | 1,311,150                         | 1,188,625              |
| Total revenues          | 8,022,598                         | 7,587,756              |
| Change in net assets    | 725,543                           | 242,427                |

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 21, 2018, which is the date the financial statements were available to be issued.