



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

DESCANSO GARDENS GUILD, INC.

December 31, 2018

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Report of Independent Auditors

To the Board of Trustees
Descanso Gardens Guild, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Descanso Gardens Guild, Inc. (the "Guild"), which comprise the statement of financial position as of December 31, 2018, the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, "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 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 opinion.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, in the year ending December 31, 2018, the Guild adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Correction of an Error

As discussed in Note 12 to the financial statements, the Guild has restated its net assets as of January 1, 2018, to properly record deferred membership revenue. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Los Angeles, California
May 14, 2019

Descanso Gardens Guild, Inc.
Statement of Financial Position

ASSETS	December 31, 2018
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,337,135
Operating investments	231,731
Accounts receivable	296,345
Contributions receivable	10,000
Gift shop inventory, net	335,591
Prepaid expenses	<u>27,391</u>
Total current assets	3,238,193
ENDOWMENT INVESTMENTS	2,327,341
PROPERTY AND EQUIPMENT, NET	<u>4,168,026</u>
Total assets	<u><u>\$ 9,733,560</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 777,135
Accrued expenses	215,092
Deferred revenues	<u>1,454,498</u>
Total current liabilities	<u>2,446,725</u>
NET ASSETS	
Without donor restrictions	
Undesignated	4,898,410
Designated by the Board for operating reserve	<u>1,251,110</u>
	6,149,520
With donor restrictions	
Perpetual endowment	890,344
Time-restricted endowment	185,887
Purpose restrictions	<u>61,084</u>
	<u>1,137,315</u>
Total net assets	<u>7,286,835</u>
Total liabilities and net assets	<u><u>\$ 9,733,560</u></u>

Descanso Gardens Guild, Inc.
Statement of Activities and Changes in Net Assets

	Year Ended December 31, 2018		
	Without Donor Restriction	With Donor Restriction	Total
REVENUES, SUPPORT, AND GAINS			
Admissions	\$ 5,106,401	\$ -	\$ 5,106,401
Sales, rentals, and programs	1,930,796	-	1,930,796
Management fee	270,000	-	270,000
Other revenue	3,862	-	3,862
Subtotal, revenues	7,311,059	-	7,311,059
Memberships	1,482,226	-	1,482,226
Contributions	520,416	44,725	565,141
Investment income	38,305	20,676	58,981
Net investment (loss)	(66,024)	(37,655)	(103,679)
In-kind contributions	5,192	-	5,192
Net assets released from restrictions – other	199,667	(199,667)	-
Net assets released pursuant to endowment spend rate	14,437	(14,437)	-
Subtotal, contributed sources	2,194,219	(186,358)	2,007,861
Total revenues, support, and gains	9,505,278	(186,358)	9,318,920
EXPENSES AND LOSSES			
Program services expense			
Garden stewardship and operations	6,606,374	-	6,606,374
Education, public programs and gallery	908,091	-	908,091
Total program services expense	7,514,465	-	7,514,465
Supporting services expense			
Management and general	935,706	-	935,706
Fundraising and development	860,275	-	860,275
Total supporting services expense	1,795,981	-	1,795,981
Loss on uncollectible contribution receivable	10,550	-	10,550
Loss on write off of capitalized assets	221,445	-	221,445
Total expenses and losses	9,542,441	-	9,542,441
CHANGE IN NET ASSETS	(37,163)	(186,358)	(223,521)
NET ASSETS, beginning of year (restated)	6,186,683	1,323,673	7,510,356
NET ASSETS, end of year	<u>\$ 6,149,520</u>	<u>\$ 1,137,315</u>	<u>\$ 7,286,835</u>

Descanso Gardens Guild, Inc.
Statement of Cash Flows

	Year Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (223,521)
Adjustments to reconcile changes in net assets to net cash from operating activities:	
Losses on operating investments	15,859
Depreciation expense	536,612
Loss on fixed asset write off	221,445
Loss on uncollectible contributions receivable	10,550
Endowment net investment loss	87,820
Changes in operating assets and liabilities:	
Accounts receivable	(148,631)
Contributions receivable	3,400
Gift shop inventory	(31,625)
Prepaid expenses	12,690
Accounts payable	97,002
Due to Los Angeles County	(9,916)
Accrued expenses	(100,557)
Deferred revenues	(43,286)
Net cash provided by operating activities	427,842
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(2,570,436)
Proceeds from sales of investments	2,787,427
Purchases of property and equipment	(561,887)
Net cash used in investing activities	(344,896)
NET CHANGE IN CASH AND CASH EQUIVALENTS	82,946
CASH AND CASH EQUIVALENTS, beginning of year	2,254,189
CASH AND CASH EQUIVALENTS, end of year	\$ 2,337,135

Descanso Gardens Guild, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services		Program Total	Management	Fundraising	Total
	Garden Stewardship Operations	Public Programs Education & Gallery				
Salaries and benefits	\$ 2,152,680	\$ 273,886	\$ 2,426,566	\$ 572,170	\$ 464,231	\$ 3,462,967
Los Angeles County services	20,829	-	20,829	-	-	20,829
Professional services	2,079,223	124,194	2,203,417	178,279	3,003	2,384,699
Cost of sales	550,125	-	550,125	-	-	550,125
Depreciation	285,219	220,022	505,241	30,037	1,334	536,612
Repairs and maintenance	680,624	1,863	682,487	41,651	2,471	726,609
Utilities	145,518	72,759	218,277	12,126	12,126	242,529
Office supplies	97,222	6,885	104,107	6,710	21,679	132,496
Printing and copying	61,996	34,321	96,317	5,187	59,212	160,716
Bank and credit card fees	182,257	2,638	184,895	8,415	12,718	206,028
Fees and honorariums	-	106,132	106,132	-	-	106,132
Insurance	56,069	46,228	102,297	17,941	265	120,503
Inventory loss	21,585	-	21,585	-	-	21,585
Plants and horticultural supplies	109,475	-	109,475	-	-	109,475
Event expense	-	-	-	-	148,317	148,317
Postage and freight	36,812	115	36,927	5,217	3,979	46,123
Maintenance supplies	48,022	1,996	50,018	17	-	50,035
Office rental	4,023	1,935	5,958	-	3,814	9,772
Catering	7,893	6,005	13,898	13,709	35,097	62,704
Dues, subscriptions, and books	17,419	2,388	19,807	20,919	5,181	45,907
Telephone	14,042	1,521	15,563	1,652	2,598	19,813
Miscellaneous	-	-	-	324	25	349
Legal and accounting	34,475	4,415	38,890	6,181	8,574	53,645
Travel	5,031	250	5,281	6,303	1,694	13,278
Board expenses	-	-	-	1,387	482	1,869
Professional development	4,654	72	4,726	2,132	2,066	8,924
Taxes and licenses	(8,819)	466	(8,353)	5,349	348	(2,656)
Advertising	-	-	-	-	71,061	71,061
Total	\$ 6,606,374	\$ 908,091	\$ 7,514,465	\$ 935,706	\$ 860,275	\$ 9,310,446

Note 1 – Organization

Garden Operations and Stewardship

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.

Education, Public Programs, and Gallery

Descanso Gardens is a valuable resource for educators seeking to facilitate meaningful nature experiences. Serving over 14,000 participants each year from all over Los Angeles County and beyond, the Guild provides opportunities for students to discover and connect with the natural world through close observation, self-guided exploration, and hands-on learning.

The Sturt Haaga Gallery was conceived as an important addition to Descanso’s education mission. Programming in the gallery derives from and seeks to illuminate the intersection between contemporary arts and the sciences represented by the garden – botany, horticulture, biology, ecology, conservation, and the study of gardens as cultural artifacts.

Note 2 – Summary of Significant Accounting Policies

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

Cash and cash equivalents – The Guild considers all cash and highly liquid investments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables and credit policies – Accounts receivable consist primarily of noninterest-bearing amounts due from ticket brokers for admissions during the current year and amounts due from the Guild’s caterer under a revenue-share arrangement for food and beverage operations at the Gardens. The Guild determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2018, no allowance was deemed necessary.

Contributions receivable – Contributions receivable represent amounts due from donors for financial commitments to the Guild’s programs. The Guild records contributions receivable that are expected to be collected within one year at net realizable value.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Gift shop inventory – Inventory consists of program-related merchandise held for sale in the gift shop and is stated at lower of cost or market determined by the first-in first-out method or net realizable value.

Property and equipment and leasehold improvements – The Guild records property and equipment and leasehold improvement additions over \$2,500 at cost or, if donated, at fair value at the date of donation. 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	3 – 10 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	5 – 30 years

When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Guild reviews the carrying values of property and leasehold improvements for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2018.

Investments – The Guild records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statement of financial position. Net investment return/(loss) and interest income are reported in the statement of activities and consist of realized and unrealized capital gains and losses, and interest and dividend income, respectively, and both are shown net of external investment expenses.

Net assets – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue and revenue recognition – Revenue is recognized when earned. Membership revenue is recognized evenly during the membership term. Admissions revenue is recognized when the activity or event occurs.

Gifts of equipment and securities are recognized as support without donor restrictions 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 support with donor restrictions until the assets are placed in service.

Revenues from grants and contracts are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements are incurred.

Revenues from sales, rentals, and programs are recognized when the transaction occurs and/or earned and are reported as increases in net assets without donor 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.

Contributions – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions.

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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 year ended December 31, 2018, the Guild did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

Functional expenses – The costs of providing the Guild’s programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among garden stewardship and operations, public programs, and supporting services benefited. Such allocations are determined by management on an equitable basis and are allocated based on the nature of expense and are allocated based on either percentage of revenues, square footage, or headcount.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Concentrations of credit risk –

Cash and Cash Equivalents – The Guild maintains its cash and cash equivalent 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 traded 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.

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 2016, the FASB issued ASU 2016-14 which defers the effective date of ASU 2015-09 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Guild has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

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 fiscal 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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 3 – Liquidity and Availability

The following represents the Guild's financial assets at December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	<u>2018</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 2,337,135
Accounts receivable	296,345
Contributions receivable	10,000
Investments	<u>2,559,072</u>
Total financial assets	<u>5,202,552</u>
 Add endowment spending-rate distributions and appropriations	 <u>111,000</u>
 Less amounts not available to be used within one year:	
Net assets with donor restrictions	61,084
Designated by the board for endowment	1,251,110
Perpetual endowment	890,344
Time-restricted endowment	<u>185,887</u>
	<u>2,388,425</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u><u>\$ 2,925,127</u></u>

The Guild's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments up to the stipulated annual spending rate is available for general use.

The Guild's board-designated endowment of \$1,251,110 is subject to an annual spending rate of 4% of the average of the total account value as of December 31 of the preceding three years, as described in Note 8. Although the Guild does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the Guild's liquidity management plan, the Guild invests cash in excess of daily requirements in short-term investments such as U.S. Treasury bills, with maturities designed to follow the timing of operating cash needs. In addition, the Guild also maintains a line of credit, as described in Note 7, which could be drawn upon if additional cash was needed for operations.

Note 4 – 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 year ended December 31, 2018, the Guild reimbursed the County \$20,829 for the services of the County employee. As of December 31, 2018, the Guild no longer had any remaining County employees.

Note 5 – Investments

The Guild reports all of its investments at fair value in accordance with generally accepted accounting principles. U.S. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Guild can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Guild develops inputs using the best information available in the circumstances.

The investments of the Guild in Level 1 include cash equivalents, direct equity investments, bond and equity mutual funds, and exchange traded funds, and are valued based on quoted market prices of identical assets.

The investments of the Guild in Level 2 include U.S. Treasury bonds, and are valued based on quoted market prices of similar assets.

Transfers between hierarchy levels are recognized at the end of the reporting period. There were no transfers for the year ended December 31, 2018.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 5 – Investments (continued)

The following is a summary of investments at December 31, 2018:

	<u>2018</u>
Cash equivalents	\$ 92,815
Direct equities	1,217,866
Bond funds – mutual funds	480,396
Equity funds – mutual funds	258,852
Exchange traded funds – equities	55,380
Exchange traded funds – bond funds	254,200
U.S. treasury bonds	<u>199,563</u>
	<u><u>\$ 2,559,072</u></u>

The following table presents the Guild's investments by the fair value hierarchy levels or by using Net Asset Value (NAV) per share as a practical expedient as of December 31, 2018:

	<u>Fair Value Measurements at Report Date Using</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Investments Measured at NAV</u>
<u>Assets</u>					
Operating investments					
Cash equivalents	\$ 32,168	\$ 32,168	\$ -	\$ -	\$ -
U.S. treasury bonds	199,563	-	199,563	-	-
	<u>\$ 231,731</u>	<u>\$ 32,168</u>	<u>\$ 199,563</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment Investments					
Cash equivalents	\$ 60,647	\$ 60,647	\$ -	\$ -	\$ -
Equities	1,217,866	1,217,866	-	-	-
Exchange traded funds - equities	55,380	55,380	-	-	-
Exchange traded funds - bond funds	254,200	254,200	-	-	-
Bond mutual funds	480,396	480,396	-	-	-
Equity mutual funds	258,852	258,852	-	-	-
	<u>\$ 2,327,341</u>	<u>\$ 2,327,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 6 – Property and Equipment

As of December 31, 2018, property and equipment consisted of the following:

	<u>2018</u>
Vehicles	\$ 443,486
Equipment	123,332
Leasehold improvements	6,466,482
Furniture & fixtures	<u>364,039</u>
Total gross, property and equipment	7,397,339
Accumulated depreciation	<u>(3,229,313)</u>
Total property and equipment, net	<u><u>\$ 4,168,026</u></u>

Depreciation expense for the year ended December 31, 2018, was \$536,612.

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 7 – 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% (7.0% at December 31, 2018) or 5.00%. The line of credit expires on July 10, 2019. As of December 31, 2018, there was no balance outstanding on the line of credit.

Note 8 – Endowments

Endowments (the "Endowment") consist of individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions 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 net assets with donor restriction (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 8 – Endowments (continued)

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, and
- The investment policies of the Guild.

As of December 31, 2018, the Guild had the following endowment net asset composition by type of fund:

December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,251,110	\$ -	\$ 1,251,110
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	890,344	890,344
Donor-restricted term endowment	-	185,887	185,887
	<u>\$ 1,251,110</u>	<u>\$ 1,076,231</u>	<u>\$ 2,327,341</u>

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

Note 8 – Endowments (continued)

Changes in endowment net assets for the year ended December 31, 2018, are as follows:

Year ended December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,369,020	\$ 1,107,647	\$ 2,476,667
Investment return, net	27,687	20,676	48,363
Net unrealized loss	(48,543)	(37,655)	(86,198)
Appropriation of endowment assets pursuant to spending-rate policy	(83,491)	-	(83,491)
Reclassification for underwater endowments	(13,563)	13,563	-
Appropriation of endowment assets subject to passage of time - SHG term endowment	-	(28,000)	(28,000)
Endowment net assets, end of year	<u>\$ 1,251,110</u>	<u>\$ 1,076,231</u>	<u>\$ 2,327,341</u>

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows for the year ended December 31, 2018:

Subject to expenditure for specified purpose:		
Harvest Garden		\$ 582
Restricted gifts <\$25K		1,802
Garden Accessibility		12,310
Arborjet		15,000
Water Project		4,828
ED Innovation Fund		26,562
		<u>\$ 61,084</u>
Endowments:		
Subject to the passage of time:		
SHG Term Endowment		\$ 185,887
Subject to endowment spending policy and appropriation:		
Permanently restricted to general endowment		<u>890,344</u>
Total Endowments		<u>\$ 1,076,231</u>

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 9 – Net Assets with Donor Restrictions (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Expiration of time restrictions	\$ 28,000
Satisfaction of purpose restrictions	
Summer Programs	10,000
Harvest Garden	2,418
Restricted gifts <\$25K	9,923
Garden Accessibility	7,690
Water Project	4,384
Smith Camellia	15,000
ED Innovation Fund	150,253
	<u>227,668</u>
Restricted-purpose spending-rate distributions and appropriations	
Reclass	<u>(13,563)</u>
Total	<u>\$ 214,105</u>

Note 10 – Joint Costs of Activities that Include a Fund-Raising Appeal

The Guild produces a newsletter thrice yearly that includes programmatic and administrative information, together with a request for contributions in support of the Guild's mission. During the year ended December 31, 2018, the costs of producing the newsletter included joint costs not directly attributable to any single function. Those costs were allocated among the following functional expense categories as follows:

	<u>2018</u>
Garden stewardship and operations	\$ 19,006
Education, public programs, and gallery	23,624
Management and general	4,632
Fundraising and development	2,765
	<u>\$ 50,027</u>

Descanso Gardens Guild, Inc. Notes to Financial Statements

Note 11 – Commitments

Leases – The Guild leases warehouse storage space under an operating lease agreement on a quarterly basis with payments of \$13,500.

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

The Guild leases a postage meter with monthly payments of \$198 through May 2022.

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 12 – Restatement

The Guild has restated its net assets as of January 1, 2018, to properly record deferred membership revenue. Subsequent to the issuance of the Guild's 2017 financial statements, it was determined that the Guild incorrectly reported deferred membership revenues.

The following table illustrates the changes as shown on each of the affected financial statement line items for 2018:

	As Previously Reported <u>DR (CR)</u>	Adjustment to Correct Reporting <u>DR (CR)</u>	As Restated <u>DR (CR)</u>
Net assets	8,169,978	(659,622)	7,510,356
Deferred membership revenue *	-	659,622	659,622

* Amount is included within the line item Deferred Revenues on the statement of financial position

There was no impact to the 2017 change in net assets.

Note 13 – Subsequent Events

Subsequent events have been evaluated through May 14, 2019, which is the date the financial statements were available to be issued.

Subsequent to year-end, in February 2019, the Guild and Los Angeles County executed a funding agreement for a wastewater treatment system project wherein the County will provide a grant to the Guild in an amount not to exceed \$3.125 million to fund the project. The funding agreement expires on December 31, 2019, or until all elements of the project have been completed and approved by the County.