



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

DESCANSO GARDENS GUILD, INC.

December 31, 2019 and 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 statements of financial position as of December 31, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (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 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 audits 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, 2019 and 2018, 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 2 to the financial statements, in 2019 the Guild adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 was adopted using the modified retrospective method applied to all contracts. Our opinion is not modified with respect to these matters.

Moss Adams LLP

Los Angeles, California
April 27, 2020

Descanso Gardens Guild, Inc.
Statements of Financial Position

ASSETS		December 31,	
		<u>2019</u>	<u>2018</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	2,499,625	\$ 2,337,135
Operating investments		272,145	231,731
Accounts receivable		403,585	296,345
Contributions receivable		5,000	10,000
Gift shop inventory		387,505	335,591
Prepaid expenses		<u>31,448</u>	<u>27,391</u>
Total current assets		3,599,308	3,238,193
ENDOWMENT INVESTMENTS		2,706,349	2,327,341
PROPERTY AND EQUIPMENT, net		<u>4,853,768</u>	<u>4,168,026</u>
Total assets	\$	<u><u>11,159,425</u></u>	\$ <u><u>9,733,560</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$	1,154,571	\$ 777,135
Accrued expenses		391,022	215,092
Deferred revenues		<u>1,635,912</u>	<u>1,454,498</u>
Total current liabilities		<u>3,181,505</u>	<u>2,446,725</u>
NET ASSETS			
Without donor restrictions			
Undesignated		5,242,456	4,898,410
Designated by the Board for operating reserve		<u>1,621,106</u>	<u>1,251,110</u>
		6,863,562	6,149,520
With donor restrictions			
Perpetual endowment		890,344	890,344
Time-restricted endowment		194,899	185,887
Purpose restrictions		<u>29,115</u>	<u>61,084</u>
		<u>1,114,358</u>	<u>1,137,315</u>
Total net assets		<u>7,977,920</u>	<u>7,286,835</u>
Total liabilities and net assets	\$	<u><u>11,159,425</u></u>	\$ <u><u>9,733,560</u></u>

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

	Year Ended December 31, 2019		
	Without Donor Restriction	With Donor Restriction	Total
REVENUES, SUPPORT, AND GAINS			
Admissions	\$ 5,430,832	\$ -	\$ 5,430,832
Sales, rentals, and programs	2,346,622	-	2,346,622
Management fee	270,000	-	270,000
Other revenue	1,067	-	1,067
Subtotal, revenues	8,048,521	-	8,048,521
Memberships	1,461,684	-	1,461,684
Contributions	397,926	203,098	601,024
Sponsorships	206,600	-	206,600
Interest and dividends	41,640	16,200	57,840
Realized and unrealized gains on investments, net	236,875	210,068	446,943
In-kind contributions	26,250	-	26,250
Net assets released from restrictions – other	235,068	(235,068)	-
Net assets released pursuant to endowment spend rate	217,255	(217,255)	-
Subtotal, contributed sources	2,823,298	(22,957)	2,800,341
Total revenues, support, and gains	10,871,819	(22,957)	10,848,862
EXPENSES AND LOSSES			
Program services expense			
Garden stewardship and operations	7,189,149	-	7,189,149
Education, public programs, and gallery	1,286,992	-	1,286,992
Total program services expense	8,476,141	-	8,476,141
Supporting services expense			
Management and general	676,028	-	676,028
Fundraising and development	1,005,608	-	1,005,608
Total supporting services expense	1,681,636	-	1,681,636
Total expenses and losses	10,157,777	-	10,157,777
CHANGE IN NET ASSETS	714,042	(22,957)	691,085
NET ASSETS, beginning of year	6,149,520	1,137,315	7,286,835
NET ASSETS, end of year	\$ 6,863,562	\$ 1,114,358	\$ 7,977,920

Descanso Gardens Guild, Inc.
Statements of Activities and Changes in Net Assets (Continued)

	Year Ended December 31, 2018		
	Without Donor Restriction	With Donor Restriction	Total
REVENUES, SUPPORT, AND GAINS			
Admissions	\$ 5,028,901	\$ -	\$ 5,028,901
Sales, rentals, and programs	1,930,796	-	1,930,796
Management fee	270,000	-	270,000
Other revenue	3,862	-	3,862
Subtotal, revenues	7,233,559	-	7,233,559
Memberships	1,482,226	-	1,482,226
Contributions	369,070	44,725	413,795
Sponsorships	228,846	-	228,846
Interest and dividends	38,305	20,676	58,981
Realized and unrealized losses on investments, net	(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	2,271,719	(186,358)	2,085,361
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	6,186,683	1,323,673	7,510,356
NET ASSETS, end of year	\$ 6,149,520	\$ 1,137,315	\$ 7,286,835

Descanso Gardens Guild, Inc.

Statements of Functional Expenses

Year Ended December 31, 2019

	Program Services		Program Total	Management	Fundraising	Total
	Garden Stewardship Operations	Public Programs Education & Gallery				
Salaries and benefits	\$ 2,328,864	\$ 294,639	\$ 2,623,503	\$ 475,814	\$ 556,140	\$ 3,655,457
Professional services	2,405,193	382,779	2,787,972	77,184	93,398	2,958,554
Cost of sales	604,877	-	604,877	-	-	604,877
Depreciation	346,911	222,891	569,802	32,426	1,279	603,507
Repairs and maintenance	616,385	14,916	631,301	363	709	632,373
Utilities	159,730	79,865	239,595	13,311	13,311	266,217
Office supplies	94,329	12,870	107,199	5,946	12,582	125,727
Printing and copying	58,474	45,454	103,928	3,367	53,792	161,087
Bank and credit card fees	187,846	2,037	189,883	5,933	5,986	201,802
Fees and honorariums	-	168,408	168,408	-	-	168,408
Insurance	75,911	49,303	125,214	19,253	275	144,742
Inventory loss	21,300	-	21,300	-	-	21,300
Plants and horticultural supplies	114,532	-	114,532	-	-	114,532
Event expense	-	-	-	-	130,464	130,464
Event rental expense	12,235	-	12,235	112	-	12,347
Postage and freight	38,063	178	38,241	4,331	1,407	43,979
Maintenance supplies	58,670	3,151	61,821	-	240	62,061
Catering	2,730	2,188	4,918	7,043	12,832	24,793
Dues, subscriptions, and books	21,074	3,079	24,153	17,857	3,155	45,165
Telephone	12,147	1,648	13,795	1,731	2,752	18,278
Legal and accounting	15,172	1,871	17,043	2,951	3,753	23,747
Travel	2,898	585	3,483	5,430	2,816	11,729
Board expenses	-	-	-	408	-	408
Professional development	2,750	232	2,982	2,544	3,498	9,024
Taxes and licenses	9,058	898	9,956	24	267	10,247
Advertising	-	-	-	-	106,952	106,952
Total	<u>\$ 7,189,149</u>	<u>\$ 1,286,992</u>	<u>\$ 8,476,141</u>	<u>\$ 676,028</u>	<u>\$ 1,005,608</u>	<u>\$ 10,157,777</u>

Descanso Gardens Guild, Inc. Statements of Functional Expenses (Continued)

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

Descanso Gardens Guild, Inc.
Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 691,085	\$ (223,521)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
(Gains) Losses on operating investments	(8,802)	15,859
Depreciation expense	603,507	536,612
Loss on fixed asset write-off	-	221,445
Loss on uncollectible contributions receivable	-	10,550
Endowment net investment (return) loss	(438,141)	87,820
Changes in operating assets and liabilities:		
Accounts receivable	(107,240)	(148,631)
Contributions receivable	5,000	3,400
Gift shop inventory	(51,914)	(31,625)
Prepaid expenses	(4,057)	12,690
Accounts payable	377,436	97,002
Due to Los Angeles County	-	(9,916)
Accrued expenses	175,930	(100,557)
Deferred revenues	181,414	(43,286)
Net cash provided by operating activities	<u>1,424,218</u>	<u>427,842</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,901,496)	(2,570,436)
Proceeds from sales of investments	1,929,017	2,787,427
Purchases of property and equipment	<u>(1,289,249)</u>	<u>(561,887)</u>
Net cash used in investing activities	<u>(1,261,728)</u>	<u>(344,896)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	162,490	82,946
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,337,135</u>	<u>2,254,189</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,499,625</u></u>	<u><u>\$ 2,337,135</u></u>

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 accordance 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 and amounts due from the Guild’s caterer under a revenue-share arrangement for food and beverage operations at the Gardens. As of December 31, 2019, accounts receivable also included amounts owed by Los Angeles County totaling approximately \$324,000 related to funding for the wastewater treatment system project. 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, 2019 and 2018, no allowance was deemed necessary.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 and machinery	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 statements 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 years ended December 31, 2019 and 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 statements of financial position. Net investment return/(loss) and interest income are reported in the statements 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Revenue and revenue recognition – Revenue is recognized when earned. Membership revenue is recognized evenly during the membership term. Admissions and sponsorship 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 that are nonreciprocal are treated like contributions. If the grant or contract is conditional, a barrier to entitlement exists, and revenue is recognized when the barrier is considered overcome and as allowable expenditures under such agreements are incurred, as increases in net assets without donor restrictions. If the grant or contract is unconditional, revenue is reported as an increase in net assets without donor restrictions.

Revenues from management fees and 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 statements 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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 statements 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.

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, 2019 and 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 statements of activities and changes in net assets. The statements of functional expenses present 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 accordance with U.S. GAAP requires and includes management estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues, and other support and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations

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, bonds, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue – A significant portion of the Guild's admissions revenue has historically been derived from its *Enchanted: Forest of Light* ("Enchanted") event. For the years ended December 31, 2019 and 2018, Enchanted ticket sales accounted for 33% and 41%, respectively, of the Guild's total revenue.

Reclassifications – Certain amounts presented in the prior year financial statements have been reclassified to conform to the current year presentation. Reclassifications of prior year amounts have no impact on net assets.

Recently adopted accounting pronouncements – In May 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, and issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)* in June 2018. These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. These standards became effective for annual reporting periods beginning after December 15, 2018, for non-public entities. The Guild has adopted this new treatment using the modified retrospective method. Accordingly, prior periods have not been adjusted to conform to the new guidance. There was determined to be no cumulative effect to opening net assets after applying the new guidance to all contracts with customers that were not completed as of January 1, 2019. The adoption is not expected to have a material impact on future financial results, as the adoption did not change the recognition pattern for the Guild's existing revenue streams.

Recent accounting pronouncements – 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 statements of activities and changes in net assets. The new standard is effective for years beginning after December 15, 2020, 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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 3 – Liquidity and Availability

The following represents the Guild's financial assets at December 31, 2019 and 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>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,499,625	\$ 2,337,135
Accounts receivable	403,585	296,345
Contributions receivable	5,000	10,000
Investments	<u>2,978,494</u>	<u>2,559,072</u>
Total financial assets	<u>5,886,704</u>	<u>5,202,552</u>
 Add endowment spending-rate distributions and appropriations	 <u>113,200</u>	 <u>111,000</u>
 Less amounts not available to be used within one year:		
Net assets with donor restrictions	29,115	61,084
Designated by the board for endowment	1,621,106	1,251,110
Perpetual endowment	890,344	890,344
Time-restricted endowment	<u>194,899</u>	<u>185,887</u>
	<u>2,735,464</u>	<u>2,388,425</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 3,264,440</u>	 <u>\$ 2,925,127</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 \$1,621,106 and \$1,251,110 as of December 31, 2019 and 2018, respectively, 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 years ended December 31, 2019 and 2018, the Guild reimbursed the County \$0 and \$20,829 for the services of the County employee, respectively. As of December 31, 2019, 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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 5 – Investments (continued)

Transfers between hierarchy levels are recognized at the end of the reporting period. There were no transfers for the years ended December 31, 2019 and 2018.

The following is a summary of investments at December 31, 2019 and 2018:

	2019	2018
Cash equivalents	\$ 140,727	\$ 92,815
Direct equities	1,494,820	1,217,866
Bond funds – mutual funds	500,126	480,396
Equity funds – mutual funds	226,255	258,852
Exchange traded funds – equities	188,703	55,380
Exchange traded funds – bond funds	228,753	254,200
U.S. treasury bonds	199,110	199,563
	<u>\$ 2,978,494</u>	<u>\$ 2,559,072</u>

The following tables present the Guild's investments by the fair value hierarchy levels as of December 31, 2019 and 2018:

	Fair Value Measurements at Report Date Using December 31, 2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Operating Investments				
Cash equivalents	\$ 73,035	\$ 73,035	\$ -	\$ -
U.S. treasury bonds	199,110	-	199,110	-
	<u>272,145</u>	<u>73,035</u>	<u>199,110</u>	<u>-</u>
Endowment Investments				
Cash equivalents	67,692	67,692	-	-
Equities	1,494,820	1,494,820	-	-
Exchange traded funds - equities	188,703	188,703	-	-
Exchange traded funds - bond funds	228,753	228,753	-	-
Bond mutual funds	500,126	500,126	-	-
Equity mutual funds	226,255	226,255	-	-
	<u>2,706,349</u>	<u>2,706,349</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 2,978,494</u>	<u>\$ 2,779,384</u>	<u>\$ 199,110</u>	<u>\$ -</u>

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 5 – Investments (continued)

	Fair Value Measurements at Report Date Using December 31, 2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
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>
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>
Total investments	<u>\$ 2,559,072</u>	<u>\$ 2,359,509</u>	<u>\$ 199,563</u>	<u>\$ -</u>

Note 6 – Property and Equipment

As of December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Vehicles and Machinery	\$ 554,290	\$ 443,486
Equipment	157,993	123,332
Leasehold improvements	6,899,307	6,466,482
Furniture and fixtures	379,008	364,039
Construction in progress	695,990	-
	<u>8,686,588</u>	<u>7,397,339</u>
Total gross, property, and equipment		
Accumulated depreciation	<u>(3,832,820)</u>	<u>(3,229,313)</u>
Total property and equipment, net	<u>\$ 4,853,768</u>	<u>\$ 4,168,026</u>

Depreciation expense for the years ended December 31, 2019 and 2018, was \$603,507 and \$536,612, 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.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

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% (6.25% at December 31, 2019) or 5.00%. The line of credit expires on September 10, 2020. As of December 31, 2019 and 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 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.

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.

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 8 – Endowments (continued)

As of December 31, 2019 and 2018, the Guild had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019			
Board-designated endowment funds	\$ 1,621,106	\$ -	\$ 1,621,106
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	-	194,899	194,899
	<u>\$ 1,621,106</u>	<u>\$ 1,085,243</u>	<u>\$ 2,706,349</u>
	Without Donor Restriction	With Donor Restrictions	Total
December 31, 2018			
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 years ended December 31, 2019 and 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year Ended December 31, 2019</u>			
Endowment net assets, beginning of year	\$ 1,251,110	\$ 1,076,231	\$ 2,327,341
Investment return, net	19,113	16,200	35,313
Net unrealized gain	246,828	210,068	456,896
Appropriation of endowment assets pursuant to spending-rate policy	-	(85,201)	(85,201)
Reclassification for underwater endowments	104,055	(104,055)	-
Appropriation of endowment assets subject to passage of time - SHG term endowment	-	(28,000)	(28,000)
Endowment net assets, end of year	<u>\$ 1,621,106</u>	<u>\$ 1,085,243</u>	<u>\$ 2,706,349</u>
	Without Donor Restriction	With Donor Restrictions	Total
<u>Year Ended December 31, 2018</u>			
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>

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Harvest Garden	\$ -	\$ 582
Restricted gifts <\$25K	2,500	1,802
Garden Operations	4,050	-
Garden Accessibility	-	12,310
Front Drive	5,353	-
Arborjet	15,000	15,000
Water Project	-	4,828
CA Natives	2,212	-
ED Innovation Fund	-	26,562
	<u>\$ 29,115</u>	<u>\$ 61,084</u>
Endowments:		
Subject to the passage of time:		
SHG Term Endowment	\$ 194,899	\$ 185,887
Subject to endowment spending policy and appropriation:		
Permanently restricted to general endowment	<u>890,344</u>	<u>890,344</u>
Total endowments	<u>\$ 1,085,243</u>	<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 years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ 28,000	\$ 28,000
Satisfaction of purpose restrictions		
Summer Programs	-	10,000
Harvest Garden	982	2,418
Ahmanson Grant	95,800	-
Restricted gifts <\$25K	36,362	9,923
Garden Accessibility	12,310	7,690
Garden Operations	12,270	-
Front Drive	41,665	-
Water Project	4,828	4,384
CA Natives	4,288	15,000
ED Innovation Fund	26,563	150,252
	<u>263,068</u>	<u>227,667</u>
Restricted-purpose spending-rate distributions and appropriations		
Reclass	<u>189,256</u>	<u>(13,563)</u>
Total	<u>\$ 452,324</u>	<u>\$ 214,104</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 years ended December 31, 2019 and 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>2019</u>	<u>2018</u>
Garden stewardship and operations	\$ 23,423	\$ 19,006
Education, public programs, and gallery	23,071	23,624
Management and general	1,018	4,632
Fundraising and development	<u>1,344</u>	<u>2,765</u>
	<u>\$ 48,856</u>	<u>\$ 50,027</u>

Descanso Gardens Guild, Inc.
Notes to Financial Statements

Note 11 – Commitments

Leases – The Guild leased warehouse storage space under an operating lease agreement on a quarterly basis with payments of \$13,500. The Guild cancelled this lease in November 2019.

In December 2019, the Guild entered into a non-cancelable operating lease for storage space. The lease expires in November 2024. Future minimum lease payments under the non-cancelable operating lease are as follows:

	<u>Operating Lease</u>
Years Ending December 31,	
2020	\$ 55,308
2021	56,896
2022	57,146
2023	57,840
2024	<u>54,472</u>
Total	<u>\$ 281,662</u>

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.

Rent expense for the years ended December 31, 2019 and 2018, was \$51,184 and \$45,009, 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 12 – Employee Benefit Plan

The Guild sponsors the Descanso Gardens Guild Plan (the “Plan”), a defined contribution plan. The Plan covers eligible employees who meet certain eligibility requirements. Contributions to the Plan are made through elective employee deferrals and employer discretionary contributions. Employer contributions made for the years ended December 31, 2019 and 2018, were \$63,420 and \$50,222, respectively.

Descanso Gardens Guild, Inc.

Notes to Financial Statements

Note 13 – Subsequent Events

Subsequent events have been evaluated through April 27, 2020, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. On March 12, 2020, Governor Newsom of California issued an executive order directing the cancellation of all gatherings of more than 250 people in response to the novel coronavirus outbreak, which was followed by a series of restrictions on non-essential businesses (as defined by the Governor's orders) and an executive "stay-at-home" order through May 15, 2020. While the County of Los Angeles Department of Parks and Recreation has not mandated the closure of its County-owned facilities, the Guild made the decision to close the gardens and cancel all events until May 15, 2020, for the safety of its employees, volunteers, members, and guests. The Guild will continue to monitor the situation closely, but given the uncertainty about the situation, uncertainty of the potential economic consequences, and uncertainty of any future mandates by government authorities, the Guild cannot estimate the impact to the financial statements.

The Guild held investments at December 31, 2019, that could experience a significant decline in market value in 2020 as a result of market reaction to the coronavirus outbreak. The Guild will continue to monitor the situation closely, but the market volatility and the continuing situation surrounding the coronavirus is uncertain. At this time management believes the decline in fair value for these securities is temporary.