



Report of Independent Auditors
and Financial Statements

Descanso Gardens Foundation

December 31, 2023 and 2022

Table of Contents

	Page
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10

Report of Independent Auditors

The Board of Trustees
Descanso Gardens Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Descanso Gardens Foundation, which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Descanso Gardens Foundation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Descanso Gardens Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Descanso Gardens Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Descanso Gardens Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Descanso Gardens Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Los Angeles, California
June 11, 2024

Financial Statements

Descanso Gardens Foundation
Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,753,600	\$ 11,376,125
Restricted cash and cash equivalents	4,685,039	-
Investments	4,873,562	-
Accounts receivable	206,196	76,344
Current portion of contributions receivable	1,028,902	14,906
Gift shop inventory	415,794	160,988
Prepaid expenses	61,452	123,859
Other assets	2,720	6,800
	13,027,265	11,759,022
 Total current assets	 13,027,265	 11,759,022
CONTRIBUTIONS RECEIVABLE, net of current	483,004	-
ENDOWMENT INVESTMENTS	2,737,184	2,553,436
PROPERTY AND EQUIPMENT, net	9,254,356	6,392,642
	25,501,809	20,705,100
 Total assets	 \$ 25,501,809	 \$ 20,705,100
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,348,067	\$ 2,224,280
Accrued expenses	405,395	317,548
Contract liabilities	5,200,907	2,232,564
	6,954,369	4,774,392
 Total current liabilities	 6,954,369	 4,774,392
NET ASSETS		
Without donor restrictions		
Undesignated	13,005,822	12,246,070
Designated by the Board for operating endowment	1,904,999	1,789,421
	14,910,821	14,035,491
With donor restrictions		
Perpetual endowment	717,680	637,442
Time-restricted endowment	114,505	126,573
Purpose restrictions	2,804,434	1,131,202
	3,636,619	1,895,217
 Total net assets	 18,547,440	 15,930,708
 Total liabilities and net assets	 \$ 25,501,809	 \$ 20,705,100

See accompanying notes.

Descanso Gardens Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2023

	Without Donor Restriction	With Donor Restriction	Total
REVENUES, SUPPORT, AND GAINS			
Admissions	\$ 9,014,707	\$ -	9,014,707
Memberships	2,538,696	-	2,538,696
Sales, rentals, and programs	2,376,618	-	2,376,618
Management fee	270,000	-	270,000
Other income	19,707	-	19,707
	<u>14,219,728</u>	<u>-</u>	<u>14,219,728</u>
Subtotal, revenues	14,219,728	-	14,219,728
Contributions	1,260,188	1,616,210	2,876,398
Contributions of nonfinancial assets	3,194	-	3,194
Grants	475,306	563,465	1,038,771
Sponsorships	200,400	-	200,400
Interest and dividends	177,816	15,482	193,298
Realized and unrealized gain on investments, net	225,668	80,688	306,356
Net assets released from restrictions – other	506,443	(506,443)	-
Net assets released from term endowment	28,000	(28,000)	-
	<u>2,877,015</u>	<u>1,741,402</u>	<u>4,618,417</u>
Subtotal, contributed sources	2,877,015	1,741,402	4,618,417
Total revenues, support, and gains	<u>17,096,743</u>	<u>1,741,402</u>	<u>18,838,145</u>
EXPENSES AND LOSSES			
Program services expense			
Garden stewardship and operations	12,279,332	-	12,279,332
Education, public programs, and gallery	1,312,236	-	1,312,236
	<u>13,591,568</u>	<u>-</u>	<u>13,591,568</u>
Total program services expense	13,591,568	-	13,591,568
Supporting services expense			
Management and general	1,557,752	-	1,557,752
Fundraising and development	1,072,093	-	1,072,093
	<u>2,629,845</u>	<u>-</u>	<u>2,629,845</u>
Total supporting services expense	2,629,845	-	2,629,845
Total expenses and losses	<u>16,221,413</u>	<u>-</u>	<u>16,221,413</u>
CHANGE IN NET ASSETS	875,330	1,741,402	2,616,732
NET ASSETS, beginning of year	<u>14,035,491</u>	<u>1,895,217</u>	<u>15,930,708</u>
NET ASSETS, end of year	<u>\$ 14,910,821</u>	<u>\$ 3,636,619</u>	<u>\$ 18,547,440</u>

See accompanying notes.

Descanso Gardens Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2022

	Without Donor Restriction	With Donor Restriction	Total
REVENUES, SUPPORT, AND GAINS			
Admissions	\$ 9,698,519	\$ -	\$ 9,698,519
Memberships	2,763,545	-	2,763,545
Sales, rentals, and programs	2,524,491	-	2,524,491
Management fee	270,000	-	270,000
Other income	6,526	-	6,526
Subtotal, revenues	<u>15,263,081</u>	<u>-</u>	<u>15,263,081</u>
Contributions	674,875	1,241,815	1,916,690
Contributions of nonfinancial assets	5,485	-	5,485
Grants	152,002	-	152,002
Sponsorships	409,105	-	409,105
Interest and dividends	53,351	8,656	62,007
Realized and unrealized loss on investments, net	(379,263)	(171,067)	(550,330)
Net assets released from restrictions – other	138,815	(138,815)	-
Net assets released pursuant to endowment spend rate	138,700	(138,700)	-
Subtotal, contributed sources	<u>1,193,070</u>	<u>801,889</u>	<u>1,994,959</u>
Total revenues, support, and gains	<u>16,456,151</u>	<u>801,889</u>	<u>17,258,040</u>
EXPENSES AND LOSSES			
Program services expense			
Garden stewardship and operations	10,521,009	-	10,521,009
Education, public programs, and gallery	1,619,236	-	1,619,236
Total program services expense	<u>12,140,245</u>	<u>-</u>	<u>12,140,245</u>
Supporting services expense			
Management and general	863,246	-	863,246
Fundraising and development	1,394,638	-	1,394,638
Total supporting services expense	<u>2,257,884</u>	<u>-</u>	<u>2,257,884</u>
Total expenses and losses	<u>14,398,129</u>	<u>-</u>	<u>14,398,129</u>
CHANGE IN NET ASSETS	2,058,022	801,889	2,859,911
NET ASSETS, beginning of year	<u>11,977,469</u>	<u>1,093,328</u>	<u>13,070,797</u>
NET ASSETS, end of year	<u>\$ 14,035,491</u>	<u>\$ 1,895,217</u>	<u>\$ 15,930,708</u>

See accompanying notes.

Descanso Gardens Foundation
Statements of Functional Expenses
Year Ended December 31, 2023

	Program Services					Total
	Garden Stewardship Operations	Public Programs, Education, and Gallery	Program Total	Management and General	Fundraising and Development	
Bank and credit card fees	\$ 383,130	\$ 6,456	\$ 389,586	\$ 1,257	\$ 2,576	\$ 393,419
Board expenses	-	-	-	-	62	62
Catering/meetings	167,058	11,508	178,566	10,838	34,396	223,800
Cost of sales	785,989	-	785,989	-	230	786,219
Depreciation	759,984	285,334	1,045,318	56,333	1,637	1,103,288
Donations giving	500	-	500	1,490	39	2,029
Dues, subscriptions, and books	91,626	14,657	106,283	20,204	43,516	170,003
Equipment repairs and maintenance	461,352	-	461,352	3,097	3,754	468,203
Event expense	-	-	-	-	67,180	67,180
Fees and honorariums	900	98,723	99,623	-	150	99,773
Insurance	311,046	116,781	427,827	23,056	670	451,553
Inventory loss	45,901	-	45,901	-	-	45,901
Maintenance supplies	115,598	629	116,227	-	5,007	121,234
Office supplies	50,202	3,269	53,471	8,987	10,476	72,934
Plants and horticultural supplies	81,150	-	81,150	-	2,288	83,438
Postage and freight	85,681	4,293	89,974	4,388	29,486	123,848
Printing and copying	346,131	9,273	355,404	3,397	1,003	359,804
Professional development	3,540	604	4,144	2,173	2,297	8,614
Professional services	5,446,431	336,691	5,783,122	497,315	88,313	6,368,750
Salaries and benefits	2,861,912	333,753	3,195,665	814,011	772,177	4,781,853
Taxes and licenses	30,577	-	30,577	869	-	31,446
Telephone	2,209	342	2,551	15,935	171	18,657
Travel	12,746	1,507	14,253	5,137	6,019	25,409
Utilities	235,494	88,416	323,910	17,456	507	341,873
Miscellaneous	175	-	175	-	139	314
Legal and accounting	-	-	-	71,809	-	71,809
Total	<u>\$ 12,279,332</u>	<u>\$ 1,312,236</u>	<u>\$ 13,591,568</u>	<u>\$ 1,557,752</u>	<u>\$ 1,072,093</u>	<u>\$ 16,221,413</u>

See accompanying notes.

Descanso Gardens Foundation
Statements of Functional Expenses
Year Ended December 31, 2022

	Program Services		Program Total	Management and General	Fundraising and Development	Total
	Garden Stewardship Operations	Public Programs, Education, and Gallery				
Salaries and benefits	\$ 3,016,418	\$ 294,778	\$ 3,311,196	\$ 516,191	\$ 598,413	\$ 4,425,800
Professional services	3,821,125	726,847	4,547,972	82,585	143,485	4,774,042
Cost of sales	725,469	-	725,469	-	-	725,469
Depreciation	601,021	225,652	826,673	44,550	1,295	872,518
Repairs and maintenance	786,266	10,177	796,443	-	-	796,443
Utilities	293,668	28,891	322,559	11,141	24,269	357,969
Office expense and supplies	25,883	2,664	28,547	9,969	8,845	47,361
Printing and copying	172,209	25,748	197,957	67	34,381	232,405
Bank and credit card fees	453,754	9,939	463,693	1,408	3,935	469,036
Fees and honorariums	-	149,654	149,654	-	-	149,654
Insurance	229,449	93,569	323,018	32,852	537	356,407
Inventory loss	52,236	-	52,236	-	-	52,236
Plants and horticultural supplies	64,677	-	64,677	-	-	64,677
Event expense	-	-	-	-	236,082	236,082
Postage and freight	16,775	69	16,844	4,174	47,819	68,837
Maintenance supplies	106,216	26,115	132,331	15	16,379	148,725
Storage rental	56,292	-	56,292	-	-	56,292
Catering	2,172	10,481	12,653	10,778	27,862	51,293
Dues, subscriptions, and books	66,359	12,621	78,980	19,594	62,674	161,248
Telephone	1,977	545	2,522	14,559	545	17,626
Donations	-	-	-	1,000	-	1,000
Legal and accounting	-	-	-	99,032	-	99,032
Travel	4,759	148	4,907	10,320	1,779	17,006
Board expenses	-	-	-	763	112	875
Professional development	4,810	855	5,665	2,979	1,027	9,671
Taxes and licenses	19,472	20	19,492	1,248	245	20,985
Miscellaneous	2	463	465	21	-	486
Advertising	-	-	-	-	184,954	184,954
Total	\$ 10,521,009	\$ 1,619,236	\$ 12,140,245	\$ 863,246	\$ 1,394,638	\$ 14,398,129

See accompanying notes.

Descanso Gardens Foundation
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,616,732	\$ 2,859,911
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation expense	1,103,288	872,518
Realized and unrealized (gain) loss on investments, net	(325,515)	550,330
Contributions restricted for Capital Campaign	(1,301,000)	-
Contributions restricted for Measure W	(493,800)	-
Contributions restricted for Borun Nursery	(205,000)	-
Contributions restricted for other purposes	(179,875)	-
Changes in operating assets and liabilities		
Accounts receivable	(129,852)	(6,744)
Contributions receivable	(1,013,996)	(1,656)
Inventory	(254,806)	20,204
Prepaid expenses	62,407	(67,640)
Other assets	4,080	(6,800)
Accounts payable	(876,213)	279,805
Accrued expenses	87,847	(153,913)
Contract liabilities	2,968,343	(284,351)
	<u>2,062,640</u>	<u>4,061,664</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,414,866)	(551,046)
Proceeds from sales of investments	683,071	641,949
Purchases of property and equipment	(3,965,002)	(2,239,341)
	<u>(8,696,797)</u>	<u>(2,148,438)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for Capital Campaign	1,301,000	-
Contributions restricted for Measure W	493,800	-
Contributions restricted for Borun Nursery	205,000	-
Contributions restricted for other purposes	179,875	-
	<u>2,179,675</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(4,454,482)</u>	<u>1,913,226</u>
BEGINNING OF YEAR		
Cash and cash equivalents	11,376,125	9,462,899
Restricted cash and cash equivalents	-	-
	<u>11,376,125</u>	<u>9,462,899</u>
END OF YEAR		
Cash and cash equivalents	1,753,600	11,376,125
Restricted cash and cash equivalents	4,685,039	-
	<u>\$ 6,438,639</u>	<u>\$ 11,376,125</u>

See accompanying notes.

Descanso Gardens Foundation

Notes to Financial Statements

Note 1 – Organization

Garden operations and stewardship – Descanso Gardens Foundation (the Foundation), is a nonprofit organization whose mission is to connect people with nature and one another. The Foundation was formed in 1960 and operates out of facilities at Descanso Gardens (the Gardens). Effective January 11, 2023, Descanso Gardens Guild, Inc., formally changed its name to Descanso Gardens Foundation.

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 the County and beyond, the Foundation provides opportunities for students to discover and connect with the natural world through close observation, self-guided exploration, and hands-on learning.

Integral to both Descanso Gardens' education programs and its public outreach efforts, the Sturt Haaga Gallery presents three exhibitions a year that seek to inspire and stimulate the public's interest in plants, plant communities and ecosystems, horticulture, botany, ecology, gardens as cultural artifacts, nature, and the human understanding of, and appreciation for, the natural world. The curatorial purview will emphasize art – particularly contemporary art – but will also include science and history in a lively mix within individual exhibitions and across the annual schedule. The curatorial stance will be characterized by intellectual rigor and professional standards, a commitment to accessibility by a wide and diverse audience, cohesion with the Gardens' education mission, and the creative blending of disciplines, media, and diverse points of view.

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).

Recently adopted accounting pronouncement – In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL), which requires the establishment of an allowance for estimated credit losses on financial assets, including trade and other receivables and contract assets, at each reporting date. The Foundation adopted the new standard on January 1, 2023, using the modified-retrospective approach, which did not have a significant effect on the financial statements as of and for the year ended December 31, 2023. Therefore, there was no cumulative effect to beginning retained earnings as it was determined to be immaterial.

Descanso Gardens Foundation

Notes to Financial Statements

Cash and cash equivalents – The Foundation considers all cash, money market funds, and highly liquid investments with original maturities of three months or less. Accounts are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2023, the Organization had deposits with carrying amounts of \$6,438,639 of which \$4,685,039 are restricted by the Foundation for specific contractual purposes. Cash equivalents held in investment portfolios are not considered cash and cash equivalents for the purpose of the financial statements, as they are expected to be invested.

Receivables and credit policies – Accounts receivable consist of unsecured noninterest-bearing amounts due from the Foundation’s caterer under a revenue-share arrangement for food and beverage operations at the Gardens. The Foundation determines the allowance for expected credit losses 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, 2023 and 2022, no allowance was deemed necessary. Accounts receivable totaled \$206,196, \$76,344, and \$69,600 at December 31, 2023, 2022, and 2021, respectively.

Contributions receivable – Contributions receivable represent amounts due from donors for financial commitments to the Foundation’s programs. The Foundation records contributions receivable that are expected to be collected within one year at net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities and changes in net assets. Allowances for contributions receivable are determined based on review of the individual donors and agreements.

As of December 31, 2023, unconditional promises to give were discounted at 4.5% and are expected to be realized within five years. Discount to present value as of December 31, 2023 and 2022, was \$72,859 and \$1,294, respectively. At December 31, 2023 and 2022, no allowance was deemed necessary.

Gift shop inventory – Inventory consists of program-related merchandise held-for-sale in the gift shop and is stated at the lower of cost or market determined by the first-in first-out method, or net realizable value. As of December 31, 2023 and 2022, no inventory reserve was deemed necessary.

Property and equipment and leasehold improvements – The Foundation 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	7–15 years
Equipment	3–10 years
Furniture and fixtures	5–10 years
Leasehold improvements	5–8 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 and changes in net assets. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Descanso Gardens Foundation

Notes to Financial Statements

The Foundation 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, 2023 and 2022.

Lease accounting – The Foundation determines whether the arrangement is or contains a lease at inception and only reassesses its determination if the terms and conditions of the agreement are changed. Transactions give rise to leases when the Foundation receives substantially all the economic benefits from and can direct the use of a specified property and equipment. Right-of-use (ROU) assets are included within the Foundation's noncurrent assets and lease liabilities are included in both current and noncurrent liabilities on the Foundation's statements of financial position. The ROU assets and lease liabilities are calculated using the interest rate included in the underlying agreement. If no interest rate is stated in the agreement, the Foundation uses the risk-free rate in accordance with their elected policy. ROU assets represent the Foundation's right to use, or control the use of, a specified asset for the lease term. Lease liabilities are the Foundation's obligation to make lease payments arising from a lease and are measured on a discounted basis. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. The ROU asset includes any lease payments made and initial direct costs incurred and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

At December 31, 2023 and 2022, the Foundation did not recognize any operating lease liabilities or ROU assets as the amounts were not material to the financial statements.

Investments – The Foundation 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. Endowment funds consist of funds established by donors to provide annual funding for specific activities and general operations. Endowment funds are subject to the Foundation's asset allocation guidelines and spending policy for endowment funds.

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 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 those resources be maintained in perpetuity.

Descanso Gardens Foundation

Notes to Financial Statements

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

Gifts of securities are recognized at fair value as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

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.

Contract liabilities 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. Contract liabilities are recognized when the event occurs or when service performance has been completed.

Contributions – Unconditional 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 are reported in the statements of activities and changes in net assets 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.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. At December 31, 2023 and 2022, there were no amounts outstanding that were dependent on a barrier being met prior to recognition.

Descanso Gardens Foundation

Notes to Financial Statements

Contributions of nonfinancial assets consist of contributed services and contributed plant or living specimens and supplies. Contributed services consist of volunteers donating time and services to the Foundation's operations. The Foundation 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. The Foundation uses various methods of valuation techniques to determine the value of contributed plant or living specimens and supplies including: a) current price obtained from publicly available resources, or b) current price provided by the donor from supporting invoices. Contributed nonfinancial assets are reported as revenue in the statements of activities and changes in net assets. For the years ended December 31, 2023 and 2022, contributed nonfinancial assets consisted of plant or living specimens and supplies without donor restrictions of \$3,194 and \$5,485, respectively, and fully utilized in general program activities during each respective year. There were no contributed services meeting the Foundation revenue recognition criteria for the years ended December 31, 2023 and 2022.

Sponsorship revenue – Sponsorship revenue recognition is evaluated individually for each transaction to determine whether it falls under the scope of an exchange transaction (Topic 606, *Revenue from Contracts with Customers*) or a nonreciprocal transaction (Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*). If the sponsoring entity receives commensurate value in return for their cash transferred, the transaction falls under the scope of Topic 606 (e.g., revenue for goods/services provided). If the sponsoring entity does not receive commensurate value in return for their cash transferred, the transaction falls under the scope of Topic 958-605 (e.g., a contribution). The Foundation recognized \$200,400 and \$409,105 in sponsorship revenue for the years ended December 31, 2023 and 2022, respectively. For both years, all sponsorship revenues were recognized as contributions.

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

The Foundation 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 Foundation has not recorded any uncertain tax positions. During the years ended December 31, 2023 and 2022, the Foundation did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

Advertising – The Foundation expenses advertising costs as incurred. Advertising expenses totaled \$164,878 and \$184,954 for the years ended December 31, 2023 and 2022, respectively.

Functional expenses – The costs of providing the Foundation'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 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.

Descanso Gardens Foundation

Notes to Financial Statements

Concentrations

Cash and cash equivalents – The Foundation maintains its cash and cash equivalent accounts with high credit quality financial institutions. At times, balances in the Foundation’s cash accounts exceed the FDIC insured limits. The Foundation 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 Foundation holds investments in equities, treasury bonds, 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. At times, balances in the Foundation’s investment accounts exceed the Securities Investor Protection Corporation insured limits. The Foundation attempts to limit its risk associated with investments through diversification and by utilizing the expertise and processes of an outside investment advisor.

Revenue – A significant portion of the Foundation’s admissions revenue has historically been derived from its fall and winter programming, *Carved!* and *Enchanted: Forest of Light (Enchanted)* events. For the years ended December 31, 2023 and 2022, *Carved!* and *Enchanted* ticket sales accounted for 70% and 40%, respectively, of the Foundation’s total revenue.

Descanso Gardens Foundation

Notes to Financial Statements

Note 3 – Liquidity and Availability

The following represents the Foundation's financial assets and available financial resources at December 31, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date:

	2023	2022
Financial assets at year end		
Cash and cash equivalents	\$ 1,753,600	\$ 11,376,125
Restricted cash and cash equivalents	4,685,039	-
Accounts receivable	206,196	76,344
Contributions receivable, net	1,028,902	14,906
Investments	7,610,746	2,553,436
Total financial assets	15,284,483	14,020,811
Available financial resources		
Add:		
Endowment spending-rate distributions and appropriations	137,664	138,700
Line of credit	500,000	500,000
	637,664	638,700
Less: amounts not available to be used within one year		
Net assets with donor restrictions	2,804,434	1,131,202
Designated by the Board for endowment	1,904,999	1,789,421
Perpetual endowment	717,680	637,442
Time-restricted endowment	114,505	126,573
	5,541,618	3,684,638
Financial assets and resources available to meet general expenditures over the next twelve months	\$ 10,380,529	\$ 10,974,873

The Foundation'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 Foundation's Board-designated endowment of \$1,904,999 and \$1,789,421 as of December 31, 2023 and 2022, 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 Foundation 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.

Descanso Gardens Foundation

Notes to Financial Statements

Note 4 – Management Agreement

The Foundation 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 Foundation has started the process of exercising the five-year renewal option.

Note 5 – Investments

The Foundation reports all of its investments at fair value in accordance with U.S. GAAP. 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 Foundation 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 Foundation develops inputs using the best information available in the circumstances.

The investments of the Foundation 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.

Transfers between hierarchy levels are recognized at the end of the reporting period. There were no transfers for the years ended December 31, 2023 and 2022.

Descanso Gardens Foundation

Notes to Financial Statements

The following tables present the Foundation's investments by the fair value hierarchy levels as of December 31, 2023 and 2022:

	Fair Value Measurements at December 31, 2023			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash equivalents	\$ 4,873,562	\$ 4,873,562	\$ -	\$ -
Endowment Investments				
Cash equivalents	34,914	34,914	-	-
Equities – domestic	1,418,970	1,418,970	-	-
Exchange traded funds – equities	113,273	113,273	-	-
Exchange traded funds – bond funds	488,118	488,118	-	-
Bond mutual funds	407,393	407,393	-	-
Equity mutual funds	274,516	274,516	-	-
	<u>2,737,184</u>	<u>2,737,184</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 7,610,746</u>	<u>\$ 7,610,746</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value Measurements at December 31, 2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Endowment Investments				
Cash equivalents	\$ 138,974	\$ 138,974	\$ -	\$ -
Equities – domestic	1,209,909	1,209,909	-	-
Exchange traded funds – equities	71,071	71,071	-	-
Exchange traded funds – bond funds	538,952	538,952	-	-
Bond mutual funds	397,295	397,295	-	-
Equity mutual funds	197,235	197,235	-	-
	<u>2,553,436</u>	<u>2,553,436</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 2,553,436</u>	<u>\$ 2,553,436</u>	<u>\$ -</u>	<u>\$ -</u>

Descanso Gardens Foundation
Notes to Financial Statements

For the years ended December 31, 2023 and 2022, net loss and return, respectively, consisted of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 193,298	\$ 62,007
Unrealized gain (loss) on investments	325,515	(529,862)
Management fees	<u>(19,159)</u>	<u>(20,468)</u>
Realized and unrealized gain (loss) on sale of investments, net	<u>306,356</u>	<u>(550,330)</u>
Investment (loss) return, net	<u><u>\$ 499,654</u></u>	<u><u>\$ (488,323)</u></u>

Note 6 – Property and Equipment

As of December 31, 2023 and 2022, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Vehicles and machinery	\$ 1,584,550	\$ 899,764
Equipment	272,100	272,101
Leasehold improvements	11,230,650	10,455,951
Furniture and fixtures	477,743	461,319
Construction in progress	<u>2,821,356</u>	<u>332,262</u>
Total gross, property, and equipment	16,386,399	12,421,397
Accumulated depreciation	<u>(7,132,043)</u>	<u>(6,028,755)</u>
Total property and equipment, net	<u><u>\$ 9,254,356</u></u>	<u><u>\$ 6,392,642</u></u>

Depreciation expense for the years ended December 31, 2023 and 2022, was \$1,103,288 and \$872,518, respectively.

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

Descanso Gardens Foundation

Notes to Financial Statements

Note 7 – Line of Credit

The Foundation has a revolving line of credit with a banking institution which allows for borrowings up to \$500,000 and is secured by the Foundation's receivables, gift shop inventory, and equipment. The borrowings bear interest at the Wall Street Journal prime rate plus 1.0%, but not less than 4.25% per annum (9.5% and 8.5% at December 31, 2023 and 2022, respectively). The line of credit expires on August 1, 2024.

As of December 31, 2023 and 2022, there was no balance outstanding on the line of credit. Fees paid related to the line of credit for the years ended December 31, 2023 and 2022, were \$0 and \$1,254, respectively.

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 Foundation 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 Foundation 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 Foundation, and
- The investment policies of the Foundation.

Descanso Gardens Foundation

Notes to Financial Statements

As of December 31, 2023 and 2022, the Foundation had the following endowment net asset composition by type of fund:

December 31, 2023	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,904,999	\$ -	\$ 1,904,999
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	717,680	717,680
Donor-restricted term endowment	-	114,505	114,505
	<u>\$ 1,904,999</u>	<u>\$ 832,185</u>	<u>\$ 2,737,184</u>
December 31, 2022	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,789,421	\$ -	\$ 1,789,421
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	637,442	637,442
Donor-restricted term endowment	-	126,573	126,573
	<u>\$ 1,789,421</u>	<u>\$ 764,015</u>	<u>\$ 2,553,436</u>

Investment and spending policies – Unless otherwise specified by the donors, the Foundation’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 Foundation has adopted investment policies for endowment assets that enhance the Foundation’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 Foundation

Notes to Financial Statements

Changes in endowment net assets for the years ended December 31, 2023 and 2022, are as follows:

Year Ended December 31, 2023	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,789,421	\$ 764,015	\$ 2,553,436
Investment return, net	41,354	15,482	56,836
Net unrealized gain	183,888	80,688	264,576
Appropriation of endowment assets pursuant to spending-rate policy	(109,664)	-	(109,664)
Appropriation of endowment assets subject to passage of time – SHG term endowment	-	(28,000)	(28,000)
Endowment net assets, end of year	<u>\$ 1,904,999</u>	<u>\$ 832,185</u>	<u>\$ 2,737,184</u>
Year Ended December 31, 2022	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,129,543	\$ 1,065,126	\$ 3,194,669
Investment return, net	17,060	8,656	25,716
Net unrealized (loss)	(357,182)	(171,067)	(528,249)
Appropriation of endowment assets pursuant to spending-rate policy	-	(110,700)	(110,700)
Appropriation of endowment assets subject to passage of time – SHG term endowment	-	(28,000)	(28,000)
Endowment net assets, end of year	<u>\$ 1,789,421</u>	<u>\$ 764,015</u>	<u>\$ 2,553,436</u>

At December 31, 2023, the Foundation had endowment gifts totaling \$890,344 that were held at a fair value of \$717,680, which is underwater by \$172,664. At December 31, 2022, the Foundation had endowment gifts totaling \$890,344 that were held at a fair value of \$637,442, which is underwater by \$252,902. In 2023, the Foundation elected to not continue appropriating from the donor-restricted endowment while the gifts were underwater.

Descanso Gardens Foundation
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, 2023 and 2022:

	2023	2022
Subject to expenditure for specified purpose		
Capital campaign	\$ 2,416,000	\$ 1,115,000
Measure W	372,888	-
Other purposes	15,546	16,202
	\$ 2,804,434	\$ 1,131,202
Endowments		
Subject to the passage of time		
SHG term endowment	\$ 114,505	\$ 126,573
Subject to endowment spending policy and appropriation permanently restricted to general endowment	717,680	637,442
Total endowments	\$ 832,185	\$ 764,015
Total net assets with donor restrictions	\$ 3,636,619	\$ 1,895,217

Note 10 – Joint Costs of Activities that Include a Fundraising Appeal

The Foundation produces a newsletter thrice yearly that includes programmatic and administrative information, together with a request for contributions in support of the Foundation’s mission. During the years ended December 31, 2023 and 2022, 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 for the years ended December 31, 2023 and 2022:

	2023	2022
Garden stewardship and operations	\$ 21,348	\$ 44,856
Education, public programs, and gallery	8,006	113
Management and general	8,006	28
Fundraising and development	5,337	28
	\$ 42,697	\$ 45,025

Note 11 – Commitments

Leases – The Foundation’s operating leases consist of warehouse storage space, copiers, and a postage meter. The leases expire at various dates through 2026. For the years ended December 31, 2023 and 2022, total operating lease cost was \$61,789 and \$61,734, respectively. Future minimum lease payments under the noncancelable operating leases are \$67,407.

Descanso Gardens Foundation

Notes to Financial Statements

Catering agreement – The Foundation has a catering agreement that provides a third party with exclusive rights to conduct all food and beverage operations at the Gardens. The Foundation receives 60% of the net operating profit from all food services provided by the third party. The agreement expires in August 2033 and includes a five-year renewal option.

Note 12 – Employee Benefit Plan

The Foundation sponsors the Descanso Gardens Guild, Inc. 401(k) 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, 2023 and 2022, were \$70,096 and \$65,511, respectively.

Note 13 – Contract Liabilities

Contract liabilities for the years ended December 31, 2023 and 2022, totaled \$5,200,907 and \$2,232,564, respectively. Included in those amounts are contract liabilities related to admissions, memberships, programs, and rentals. The following table provides information about significant changes in contract liabilities for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Contract liabilities, beginning of year	\$ 2,232,564	\$ 2,516,915
Decreases in contract liabilities due to performance satisfaction	(1,792,128)	(2,608,092)
Increases in contract liabilities due to cash received during the year	<u>4,760,471</u>	<u>2,323,741</u>
Contract liabilities, end of year	<u>\$ 5,200,907</u>	<u>\$ 2,232,564</u>

Note 14 – Grant Revenue

Under the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Foundation was eligible for a refundable employee retention credit subject to certain criteria.

For the years ended December 31, 2023 and 2022, the Foundation recognized in the statements of activities and changes in net assets \$0 and \$152,000, respectively, in tax credits which were received as cash refunds and were accounted for as grant revenue.

Descanso Gardens Foundation

Notes to Financial Statements

Note 15 – Contributions of Nonfinancial Assets

The Foundation received the following contributions of nonfinancial assets for the years ended December 31:

	2023	2022
Program tickets	\$ -	\$ 2,100
Plant material	1,448	1,985
Inventory	229	-
Meal	529	-
Tools/supplies	988	1,400
	\$ 3,194	\$ 5,485

Contributed plant or living specimens and supplies received by the Foundation are recorded as in-kind contribution revenue with a corresponding increase in the related expense. The Foundation uses various method of valuation techniques to determine the value of the contributed asset including: (1) current price obtained from publicly available sources; or (2) current price provided by the donor from supporting invoices.

The Foundation also receives donated services from a variety of unpaid volunteers assisting the Foundation in the operations of the Gardens. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Note 16 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through June 11, 2024, which is the date the financial statements were available to be issued.