



Certified Public Accountants  
and Financial Advisors

**Laguna Art Museum**  
Financial Statements  
June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Laguna Art Museum  
Laguna Beach, California

We have audited the accompanying financial statements of the Laguna Art Museum, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 Laguna Art Museum as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*SQUAR MILNER LLP*

**SQUAR MILNER LLP**

San Diego, California  
November 10, 2017

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**LAGUNA ART MUSEUM**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**

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**ASSETS**

Current assets:

Cash and cash equivalents	\$ 274,752
Investments	1,159,635
Accounts receivable	64,875
Inventory	9,007
Prepaid expenses	15,876
Total current assets	<u>1,524,145</u>

Fixed assets, net 2,415,103

Restricted cash 59,103

**TOTAL ASSETS** \$3,998,351

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 246,132
Accrued liabilities	51,023
Deferred revenue	3,650
Capital lease obligation, current portion	11,419
Total current liabilities	<u>312,224</u>

Deferred compensation obligation 59,103

Total liabilities 371,327

Net assets:

Permanently restricted	1,074,337
Temporarily restricted	698,153
Unrestricted	1,854,534
Total net assets	<u>3,627,024</u>

**TOTAL LIABILITIES AND NET ASSETS** \$3,998,351

**LAGUNA ART MUSEUM**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUES</b>				
Contributions and grants	\$ 442,897	\$ 802,402	\$ -	\$ 1,245,299
Admissions	70,264	-	-	70,264
Memberships	336,935	-	-	336,935
Hotel assessment	229,187	-	-	229,187
	<u>1,079,283</u>	<u>802,402</u>	<u>-</u>	<u>1,881,685</u>
Special event revenue	799,678	-	-	799,678
Special event direct expenses	(405,294)	-	-	(405,294)
Net support from special events	<u>394,384</u>	<u>-</u>	<u>-</u>	<u>394,384</u>
Museum store revenue	41,017	-	-	41,017
Museum store direct expenses	(5,361)	-	-	(5,361)
Net support from museum store	<u>35,656</u>	<u>-</u>	<u>-</u>	<u>35,656</u>
Facility rentals	23,860	-	-	23,860
Total support and revenues	<u>1,533,183</u>	<u>802,402</u>	<u>-</u>	<u>2,335,585</u>
<b>OTHER INCOME</b>				
Investment and miscellaneous income	35,210	113,824	-	149,034
Total other income	<u>35,210</u>	<u>113,824</u>	<u>-</u>	<u>149,034</u>
Total support, revenue and other income before transfers	1,568,393	916,226	-	2,484,619
Net assets released from restriction	859,015	(859,015)	-	-
Total support, revenue and other income	<u>2,427,408</u>	<u>57,211</u>	<u>-</u>	<u>2,484,619</u>
<b>EXPENSES</b>				
Program expenses	1,333,079	-	-	1,333,079
Management and general	679,733	-	-	679,733
Fundraising	326,380	-	-	326,380
Total expenses	<u>2,339,192</u>	<u>-</u>	<u>-</u>	<u>2,339,192</u>
<b>COLLECTION ITEMS SOLD</b>	<u>-</u>	<u>7,659</u>	<u>-</u>	<u>7,659</u>
<b>CHANGE IN NET ASSETS</b>	88,216	64,870	-	153,086
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,766,318</u>	<u>633,283</u>	<u>1,074,337</u>	<u>3,473,938</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,854,534</u>	<u>\$ 698,153</u>	<u>\$ 1,074,337</u>	<u>\$ 3,627,024</u>

**LAGUNA ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Fiscal Year Ended June 30, 2017**

	<b>Program Services and Education</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 620,480	\$ 277,272	\$ 213,967	\$1,111,719
Employee benefits	36,770	42,664	18,492	97,926
Professional fees	271,913	108,440	22,819	403,172
Occupancy	62,331	70,095	214	132,640
Depreciation	-	87,583	3,136	90,719
Printing and postage	155,709	6,505	7,426	169,640
Office expense	42,143	35,879	37,572	115,594
Insurance	31,403	13,491	4,465	49,359
Equipment rental	9,321	17,535	4,993	31,849
Interest	-	4,045	-	4,045
Professional/consulting services and operating expenditures	18,041	1,140	269	19,450
Travel and conferences	65,522	6,109	13,027	84,658
Advertising and promotion	19,446	8,975	-	28,421
Total expenses	<u>\$ 1,333,079</u>	<u>\$ 679,733</u>	<u>\$ 326,380</u>	<u>\$2,339,192</u>

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**LAGUNA ART MUSEUM**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2017**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 153,086
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:	
Depreciation	90,719
Net realized and unrealized investment loss	(85,568)
(Increase) decrease in operating assets:	
Accounts receivable	(9,535)
Inventory	312
Prepaid expenses	(997)
Increase (decrease) in operating liabilities:	
Accounts payable	61,777
Accrued liabilities	1,877
Deferred revenue	(3,363)
Deferred compensation obligation	15,546
Net cash flows provided by operating activities	<u>223,854</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of fixed assets	(310,018)
Purchases of investments, net	(79,562)
Appropriation of endowment assets for expenditure	10,625
Net cash flows used in investing activities	<u>(378,955)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on capital lease obligation	(2,918)
Change in restricted cash	(15,546)
Net cash flows used in financing activities	<u>(18,464)</u>

**NET CHANGE IN CASH** (173,565)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 448,317

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 274,752

**SUPPLEMENTAL DISCLOSURES:**

Cash paid for interest	<u><u>\$ 4,045</u></u>
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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**1. ORGANIZATION**

Laguna Art Museum (the “Organization”) is a nonprofit California corporation that was incorporated on July 22, 1996 as Laguna Art Museum Heritage Corporation. As an American art museum with a special focus on the art of California, its purpose is to promote understanding of the role of art and artists in American culture through collection, exhibition, research and instruction. The focus of the Organization collection is on the art of California and related works from the 19th, 20th and 21st centuries.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Financial Statement Presentation*

The financial statements are presented in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets:

*Unrestricted Net Assets:* Unrestricted net assets are available to support all activities of the Organization, and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

*Temporarily Restricted Net Assets:* Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets were \$698,153 as of June 30, 2017.

*Permanently Restricted Net Assets:* Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. Permanently restricted net assets were \$1,074,337 as of June 30, 2017.

*Basis of Accounting*

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to not-for-profit organizations. The Organization uses the accrual basis of accounting, under which revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Income Taxes*

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

*Contributed Support*

The Organization recognizes contributed support as revenue in the period received. Unconditional contributed support is reported as unrestricted, temporarily restricted, or permanently restricted depending on the existence of donor stipulations that limit the use of the support.

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Donated Materials and Services*

Donated materials and other noncash contributions are reflected as contributed support at their estimated fair values when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Donated Materials and Services* (continued)

Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. During the fiscal year ended June 30, 2017, there were no donated materials and services.

*Membership Revenue Recognition*

Membership dues generally range from \$60 to \$10,000 per member for annual membership. The most substantial costs of serving the member occur within 30 days of the member joining. Costs beyond the initial 30 days are not material; therefore the Organization recognizes revenue from membership dues in the month in which the member joins.

*Cash and Cash Equivalents*

Cash is, from time to time, variously composed of cash on hand and cash in banks. The Organization considers all highly liquid investments with original maturities of three months or less at the time of acquisition to be cash equivalents. As of June 30, 2017, there was \$29,966 in cash equivalents.

*Investments*

The Organization presents its investments in accordance with the ASC 958-320, *Not-For-Profit Entities - Investments Debt & Equity Securities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. The fair values of these investments are subject to change based on the fluctuations of market values. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

*Fair Value Measurements*

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a framework for measuring fair value. That framework provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Fair Value Measurements* (continued)

The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan 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, such as:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
  - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs that are unobservable inputs for the asset or liability.

*Endowment Funds*

The Board of Trustees of the Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Inventory***

Inventory is valued at the lower of cost or market and consists of books, posters, and miscellaneous art objects, which are sold in the Organization's gift shop. The Organization also carries inventory items on consignment from various artists which are not recorded as assets in the accompanying financial statements as the Organization does not hold legal title to the items.

***Fixed Assets, Net***

Property and equipment greater than \$2,500 are capitalized at cost, or if donated, at the estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Items costing a nominal amount and repair and maintenance costs are charged to expense as incurred, whereas expenditures that materially extend asset lives are capitalized. Upon retirement or disposal, the related cost and accumulated depreciation of the asset is removed from the accounts and any gain or loss is included in the statement of activities.

Property and equipment, except for land, are depreciated over their respective estimated useful lives using the straight-line method. The estimated useful life is 45 years for buildings, 15 to 20 years for building improvements, and 3 to 5 years for furniture and equipment.

***Impairments***

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the expected future cash flows from the use of such assets (undiscounted and without interest charges) are less than the carrying value, the Organization recognizes an impairment loss based on the difference between the carrying value of the assets and their estimated fair value. There was no impairment loss recognized during the year ended June 30, 2017.

***Fundraising Expenses***

The accompanying statement of activities for the year ended June 30, 2017, includes fundraising expenses of \$326,380, which does not include special event direct expenses of \$405,294, as these event expenses are deducted from support from special events and presented on a net basis in the accompanying statement of activities.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Functional Expense Allocations*

The Organization allocates expenses to their functional categories, as required by GAAP. The allocations are based on the functional category's estimated usage of the expense, as determined by management.

*Art Collection*

In conformity with the practice followed by many museums, art objects purchased or donated to the Organization are not capitalized in the statement of financial position. The Organization's art collection is made up of art objects that are held for exhibition and various other program activities. Each of these items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets when purchased. Contributed collection items are excluded from the financial statements.

Proceeds from deaccessions are reflected as increases in temporarily restricted net assets and totaled \$7,659 during the year ended June 30, 2017. Deaccession proceeds are required by the Organization's policy to be applied to the acquisition of works of art for the permanent collection. The Organization did not purchase collection items during the year ended June 30, 2017.

*Use of Estimates and Assumptions*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Functional Allocation of Expenses*

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

*New Accounting Pronouncements*

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (See Note 9).

In August 2016, The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. However, under this Update, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted and permanently restricted).

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at June 30, 2017, consisted of the following:

Cash in banks	\$ 245,241
Money market account	<u>29,511</u>
Total cash and cash equivalents	<u><u>\$ 274,752</u></u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. At June 30, 2017 the Organization had \$52,922 in excess of FDIC insured limits.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**4. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017, consisted of the following:

Hotel assessment	\$ 61,800
Contributions	3,075
Total accounts receivable	\$ 64,875

**5. INVESTMENTS**

The Organization carries its investments at fair value. The difference between fair value and cost is recorded as an unrealized gain (loss), which is a component of investment income in the statement of activities. As described in Note 2, the Organization's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The following table presents investments that are measured at fair value on a recurring basis in the accompanying statement of financial position at June 30, 2017:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Equities				
Mutual funds:				
Domestic	\$ 177,656	\$ 177,656	\$ -	\$ -
International	115,304	115,304	-	-
Real asset funds	142,668	142,668	-	-
Total mutual funds	435,628	435,628	-	-

**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**5. INVESTMENTS (continued)**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks:				
Consumer discretionary	58,437	58,437	-	-
Consumer staples	11,928	11,928	-	-
Financials	46,507	46,507	-	-
Health care	74,218	74,218	-	-
Industrials	45,472	45,472	-	-
Information technology	75,073	75,073	-	-
Materials	11,868	11,868	-	-
International equities	68,268	68,268	-	-
Total common stocks	<u>391,771</u>	<u>391,771</u>	<u>-</u>	<u>-</u>
Total equities	<u>827,399</u>	<u>827,399</u>	<u>-</u>	<u>-</u>
Fixed income				
Domestic mutual funds	315,956	315,956	-	-
International mutual funds	16,280	16,280	-	-
Total fixed income	<u>332,236</u>	<u>332,236</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$1,159,635</u>	<u>\$1,159,635</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income is comprised of the following for the year ended June 30, 2017:

Interest	\$ 204
Dividends	27,803
Capital gains and other	190
Net realized gain on sale of investments	992
Net unrealized gain on investments	<u>84,576</u>
Net investment return	<u>\$ 113,765</u>

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**6. FIXED ASSETS**

Fixed assets consist of the following at June 30, 2017:

Land	\$ 780,000
Library	96,450
Constructon in progress	10,000
Buildings and improvements	2,592,470
Furniture and fixtures	420,881
	<hr/>
	3,899,801
Less: accumulated depreciation	(1,484,698)
Total fixed assets, net of depreciation	<hr/> <u>\$ 2,415,103</u>

Depreciation expense for the year ended June 30, 2017 was \$90,719.

**7. LINE OF CREDIT**

The Organization has a revolving line of credit with no expiration with a financial institution in the amount of \$100,000. The line of credit bears interest at the financial institution's prime rate (3.50% at June 30, 2017) plus 3.50% per annum and is unsecured. As of June 30, 2017, the line of credit had no outstanding balance.

On September 18, 2017, the Organization replaced its revolving line of credit with a financial institution, increasing the borrowing capacity to \$200,000. The line of credit bears interest at the bank's index rate (4.25% at September 18, 2017) plus 1.33%, per annum, with a floor of 5.00%, and is due and payable monthly commencing November 10, 2017. The line of credit is secured by the Organization's accounts receivable and certain property as agreed to by the Organization, and matures on October 10, 2018, at which time all unpaid principal and accrued interest is due and payable in full.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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**8. OPERATING LEASES**

The Organization leases office equipment and storage space under operating lease agreements expiring at various times through January 2022. Future minimum lease payments consist of the following:

<b>Year Ending June 30,</b>	<b>Lease Payments</b>
2018	\$ 54,403
2019	11,860
2020	11,860
2021	11,370
2022	10,684
Total future lease payments	<u>\$ 100,177</u>

The Organization receives no sublease rental revenues nor pays any contingent rentals associated with these leases. For the fiscal year ended June 30, 2017, operating lease expense was \$59,683.

**9. CAPITAL LEASES**

The Organization leases equipment over a 60-month period. Leased property under capital leases at June 30, 2017 includes:

Equipment	\$ 18,000
Less: Accumulated depreciation	(9,600)
	<u>\$ 8,400</u>

Depreciation expense related to the asset acquired pursuant the capital lease was \$3,600 for the year ended June 30, 2017 and is included in the total depreciation expense described in Note 6.

Subsequent to year end, the lease was renegotiated in connection with the acquisition of a new operating lease. Ownership was transferred to the lessor as part of the agreement and the remainder of the liability was included in the new operating lease agreement.

**10. COMMITMENTS**

*Defined Contribution Plan*

The Organization sponsors a 401(k) retirement plan in which full-time employees over the age of 21 are eligible to participate. The Organization's matches up to 25% of the first 4% of the participating employees salary. During the year ended June 30, 2017, \$6,758 of employer contributions were made to the plan.

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**10. COMMITMENTS** (continued)

*Defined Contribution Plan* (continued)

The Organization sponsors a 457(b) self-funded and directed defined contribution plan in which participation is limited to the executive director and deputy director. The Organization's contributions to this plan are made at the discretion of the Board of Trustees. During the year ended June 30, 2017, \$9,834 of employer contributions were made to the plan. As of June 30, 2017, the Organization has \$59,103 reflected in restricted cash and deferred compensation obligations on the Statement of Financial Position.

**11. TEMPORARILY RESTRICTED NET ASSETS**

As of June 30, 2017, temporarily restricted net assets are comprised of cash and cash equivalents and investments and are restricted as follows:

Future exhibitions	\$ 282,777
Subsequent year's operations	147,827
Permanent collection	95,811
Unappropriated endowment earnings	115,264
Education	51,918
Legal	4,556
Total temporarily restricted net assets	<u>\$ 698,153</u>

**12. ENDOWMENT FUNDS**

*Endowment Composition and Changes in Endowment Net Assets*

Endowment net asset were comprised entirely of donor-restricted assets. Changes in the endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 12,124	\$ 1,074,337	\$ 1,086,461
Investment return:				
Investment income, net	-	28,576	-	28,576
Net gain (realized and unrealized)	-	85,568	-	85,568
Other income	-	(379)	-	(379)
Total investment return	-	113,765	-	113,765
Appropriation of endowment assets for expenditure	-	(10,625)	-	(10,625)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 115,264</u>	<u>\$ 1,074,337</u>	<u>\$ 1,189,601</u>

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**12. ENDOWMENT FUNDS** (continued)

*Return Objectives and Risk Parameters*

The Organization Board of Trustees has the sole discretion as to the investment and reinvestment of endowment assets. The Organization's investment and spending policies for endowment assets attempt to preserve the principal of the endowment fund and, secondarily, provide current income. Based on the limited size of the Organization's endowment assets, the board of trustees appropriates endowment fund earnings for distribution annually through the Organization's annual budgeting process.

**13. SUBSEQUENT EVENTS**

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 10, 2017, which is the date the financial statements were available to be issued. Except as described in Notes 7 and 9, management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.