



Certified Public Accountants
and Financial Advisors

Laguna Art Museum
Financial Statements
June 30, 2018

INDEX TO FINANCIAL STATEMENTS

Independent Auditor's Report	2
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

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

SQUAR MILNER LLP

SQUAR MILNER LLP

San Diego, California
October 5, 2018

LAGUNA ART MUSEUM
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 96,957
Investments	1,223,359
Accounts receivable	60,407
Inventory	9,271
Prepaid expenses	17,172
Total current assets	<u>1,407,166</u>
Fixed assets, net	2,611,734
Restricted cash	75,400
TOTAL ASSETS	<u><u>\$ 4,094,300</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 300,411
Accrued liabilities	62,736
Deferred revenue	386,000
Lines of credit	140,436
Total current liabilities	<u>889,583</u>
Deferred compensation obligation	75,400
Total liabilities	<u>964,983</u>
Net assets	
Permanently restricted	1,074,337
Temporarily restricted	482,942
Unrestricted	1,572,038
Total net assets	<u>3,129,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,094,300</u></u>

LAGUNA ART MUSEUM
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions and grants	\$ 624,389	\$ 850,178	\$ -	\$ 1,474,567
Admissions	66,426	-	-	66,426
Memberships	332,533	-	-	332,533
Hotel assessment	240,524	-	-	240,524
	<u>1,263,872</u>	<u>850,178</u>	<u>-</u>	<u>2,114,050</u>
Special event revenue	508,675	-	-	508,675
Special event direct expenses	(297,572)	-	-	(297,572)
Net support from special events	<u>211,103</u>	<u>-</u>	<u>-</u>	<u>211,103</u>
Museum store revenue	117,444	-	-	117,444
Museum store direct expenses	(40,995)	-	-	(40,995)
Net support from museum store	<u>76,449</u>	<u>-</u>	<u>-</u>	<u>76,449</u>
Facility rentals	3,700	-	-	3,700
Total support and revenues	<u>1,555,124</u>	<u>850,178</u>	<u>-</u>	<u>2,405,302</u>
OTHER INCOME				
Investment and miscellaneous income	24,809	105,864	-	130,673
Total other income	<u>24,809</u>	<u>105,864</u>	<u>-</u>	<u>130,673</u>
Total support, revenue and other income before transfers	1,579,933	956,042	-	2,535,975
Net assets released from restriction	1,171,853	(1,171,853)	-	-
Total support, revenue and other income	<u>2,751,786</u>	<u>(215,811)</u>	<u>-</u>	<u>2,535,975</u>
EXPENSES				
Program expenses	1,806,129	-	-	1,806,129
Management and general	684,973	-	-	684,973
Fundraising	546,199	-	-	546,199
Total expenses	<u>3,037,301</u>	<u>-</u>	<u>-</u>	<u>3,037,301</u>
COLLECTION ITEMS SOLD	-	600	-	600
GAIN ON DISPOSITION OF CAPITAL LEASE	<u>3,019</u>	<u>-</u>	<u>-</u>	<u>3,019</u>
CHANGE IN NET ASSETS	(282,496)	(215,211)	-	(497,707)
NET ASSETS, BEGINNING OF YEAR	<u>1,854,534</u>	<u>698,153</u>	<u>1,074,337</u>	<u>3,627,024</u>
NET ASSETS, END OF YEAR	<u>\$ 1,572,038</u>	<u>\$ 482,942</u>	<u>\$ 1,074,337</u>	<u>\$ 3,129,317</u>

LAGUNA ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2018

	Program Services and Education	General and Administrative	Fundraising	Total
Salaries	\$ 679,350	\$ 263,511	\$ 294,336	\$ 1,237,197
Employee benefits	44,289	42,200	26,516	113,005
Professional fees	271,978	97,031	79,890	448,899
Occupancy	65,839	73,805	2,491	142,135
Depreciation	-	101,520	-	101,520
Printing and postage	501,166	6,494	23,062	530,722
Office expense	77,172	36,529	99,361	213,062
Insurance	53,875	12,416	5,722	72,013
Equipment rental	9,684	34,023	11,108	54,815
Interest	-	887	-	887
Professional/consulting services and operating expenditures	31,946	7,944	618	40,508
Travel and conferences	52,323	8,239	3,095	63,657
Advertising and promotion	18,507	374	-	18,881
Total expenses	<u>\$ 1,806,129</u>	<u>\$ 684,973</u>	<u>\$ 546,199</u>	<u>\$ 3,037,301</u>

LAGUNA ART MUSEUM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (497,707)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:	
Depreciation	101,520
Net realized and unrealized investment loss	(76,326)
(Increase) decrease in operating assets:	
Accounts receivable	4,468
Inventory	(264)
Prepaid expenses	(1,296)
Increase (decrease) in operating liabilities:	
Accounts payable	54,279
Accrued liabilities	11,713
Deferred revenue	382,350
Deferred compensation obligation	16,297
Net cash flows used in operating activities	<u>(4,966)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of fixed assets	(306,551)
Proceeds from sales of investments, net	<u>150,019</u>
Net cash flows used in investing activities	<u>(156,532)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Change in restricted cash	<u>(16,297)</u>
Net cash flows used in financing activities	<u>(16,297)</u>

NET CHANGE IN CASH (177,795)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 274,752

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 96,957

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	<u><u>\$ 887</u></u>
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LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

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 \$482,942 as of June 30, 2018.

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, 2018.

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.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2018, there were no donated materials and services.

Membership Revenue Recognition

The Organization recognizes membership sales as revenue over the membership period. Membership dues generally range from \$60 to \$10,000 per member for annual membership.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, there was \$59,868 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).

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.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventory

Inventory is valued at the lower of cost or net realizable value 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.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets, Net (continued)

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, 2018.

Fundraising Expenses

The accompanying statement of activities for the year ended June 30, 2018, includes fundraising expenses of \$546,199, which does not include special event direct expenses of \$297,572, as these event expenses are deducted from support from special events and presented on a net basis in the accompanying statement of activities.

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 \$600 during the year ended June 30, 2018. 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, 2018.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 10).

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).

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The guidance in ASU No. 2014-09 provides that an entity should recognize revenue to depict the transfer goods or services provided and establishes the following steps to be applied by an entity: (1) identify the contract with a customer; (2) identify the performance

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies the performance obligation. In August 2016, the FASB issued ASU 2016-14, which formally deferred the effective date of this guidance by one year, which makes this guidance effective for the Organization for annual reporting periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted, but not prior to the original effective date, which for the Company was for annual reporting periods beginning after December 15, 2017. The Organization has not yet assessed the potential impact of this guidance on its financial statement.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2018, consisted of the following:

Cash in banks	\$ 37,089
Money market account	<u>59,868</u>
Total cash and cash equivalents	<u><u>\$ 96,957</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, 2018 the Organization had zero in excess of FDIC insured limits.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

Hotel assessment	\$ 60,407
Total accounts receivable	<u><u>\$ 60,407</u></u>

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.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

5. INVESTMENTS (continued)

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, 2018:

	(Level 1)
Equities	
Mutual funds:	
Domestic	\$ 215,262
International	144,880
Real asset funds	103,389
Fixed income	379,897
Total mutual funds	843,428
Common stocks:	
Consumer discretionary	63,617
Consumer staples	11,024
Energy	3,111
Financials	40,077
Health care	57,046
Industrials	32,916
Information technology	89,334
Materials	8,329
Telecommunication services	3,211
International equities	71,266
Total common stocks	379,931
Total investments	\$ 1,223,359

Investment income is comprised of the following for the year ended June 30, 2018:

Interest	\$ 476
Dividends	28,839
Capital gains and other	125
Net gain (realized and unrealized)	76,326
Other income	60
Net investment return	\$ 105,826

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

6. FIXED ASSETS

Fixed assets consist of the following at June 30, 2018:

Land	\$ 780,000
Library	96,450
Constructon in progress	241,871
Buildings and improvements	2,603,660
Furniture and fixtures	466,371
	<u>4,188,352</u>
Less: accumulated depreciation	(1,576,618)
Total fixed assets, net of depreciation	<u>\$ 2,611,734</u>

Depreciation expense for the year ended June 30, 2018 was \$101,520.

7. ACCRUED EXPENSES

Accrued expenses consist of the following at June 30, 2018:

Accrued payroll	\$ 2,976
Accrued bonus	3,505
Accrued vacation	53,443
401(k) payable	2,812
Total accrued expenses	<u>\$ 62,736</u>

8. DEFERRED REVENUE

The Organization records deferred revenue for special events sales received prior to the respective event. Deferred revenues consist of the following at June 30, 2018:

Special event - ticket sales	\$ 385,000
Special event - raffle ticket sales	1,000
Total deferred revenue	<u>\$ 386,000</u>

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

9. LINE OF CREDIT

The Organization has a revolving line of credit with a financial institution in the amount of \$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%. 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. As of June 30, 2018, the line of credit had an outstanding balance of \$140,436.

10. 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:

Year Ending June 30,	Lease Payments
2019	\$ 11,860
2020	11,860
2021	11,370
2022	<u>10,684</u>
Total future lease payments	<u>\$ 45,774</u>

The Organization receives no sublease rental revenues nor pays any contingent rentals associated with these leases. For the fiscal year ended June 30, 2018, operating lease expense was \$70,051.

11. 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, 2018, \$9,016 of employer contributions were made to the plan.

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, 2018, \$9,470 of employer contributions were made to the plan. As of June 30, 2018, the Organization has \$75,400 reflected in restricted cash and deferred compensation obligations on the Statement of Financial Position.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

12. TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2018, temporarily restricted net assets are comprised of cash and cash equivalents and investments and are restricted as follows:

Future exhibitions	\$ 120,189
Subsequent year's operations	20,364
Permanent collection	66,446
Unappropriated endowment earnings	209,927
Education	63,140
Legal	2,876
Total temporarily restricted net assets	<u>\$ 482,942</u>

13. 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, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 115,264	\$ 1,074,337	\$ 1,189,601
Investment return:				
Investment income, net	-	29,440	-	29,440
Net gain (realized and unrealized)	-	76,326	-	76,326
Other income	-	60	-	60
Total investment return	-	105,826	-	105,826
Appropriation of endowment assets for expenditure	-	(11,765)	-	(11,765)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 209,325</u>	<u>\$ 1,074,337</u>	<u>\$ 1,283,662</u>

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.

LAGUNA ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

14. 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 October 5, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.