

**Laguna Art Museum**  
Financial Statements  
June 30, 2020

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## INDEPENDENT AUDITORS' 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, 2020, 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.

### **Auditors' 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, 2020, 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.

*Baker Tilly US, LLP*

San Diego, California  
September 18, 2021

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**LAGUNA ART MUSEUM**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2020**

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**ASSETS**

Current assets	
Cash and cash equivalents	\$ 521,449
Endowment fund investments	1,652,880
Accounts receivable	840
Inventory	7,750
Prepaid expenses	16,797
Other current assets	101,695
Total current assets	<u>2,301,411</u>
Fixed assets, net	<u>2,716,523</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,017,934</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities	
Accounts payable	\$ 78,806
Accrued liabilities	77,242
PPP loan liability	260,500
Deferred revenue	162,879
Total current liabilities	<u>579,427</u>
Deferred compensation obligation	<u>107,887</u>
Total liabilities	<u>687,314</u>
<b>NET ASSETS</b>	
Net assets without donor restrictions - undesignated	2,138,223
Net assets with donor restrictions	<u>2,192,397</u>
Total net assets	<u>4,330,620</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,017,934</u></u>

**LAGUNA ART MUSEUM**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2020

	<b>Net Assets without donor restrictions</b>	<b>Net Assets with donor restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUES, NET</b>			
Contributions and grants	\$ 555,980	\$ 1,044,381	\$ 1,600,361
Admissions	66,047	-	66,047
Memberships	291,880	-	291,880
Hotel assessment	156,242	-	156,242
	<u>1,070,149</u>	<u>1,044,381</u>	<u>2,114,530</u>
Special event revenue	877,045	-	877,045
Special event direct expenses	<u>(462,617)</u>	<u>-</u>	<u>(462,617)</u>
Net support from special events	<u>414,428</u>	<u>-</u>	<u>414,428</u>
Museum store revenue	50,077	-	50,077
Museum store direct expenses	<u>(22,685)</u>	<u>-</u>	<u>(22,685)</u>
Net support from museum store	<u>27,392</u>	<u>-</u>	<u>27,392</u>
Total support and revenues, net	<u>1,511,969</u>	<u>1,044,381</u>	<u>2,556,350</u>
<b>OTHER INCOME</b>			
Investment and miscellaneous income	<u>15,088</u>	<u>35,129</u>	<u>50,217</u>
Total other income	<u>15,088</u>	<u>35,129</u>	<u>50,217</u>
Total support, revenue and other income before transfers	1,527,057	1,079,510	2,606,567
Net assets released from restriction	<u>816,235</u>	<u>(816,235)</u>	<u>-</u>
Total support, revenue and other income	<u>2,343,292</u>	<u>263,275</u>	<u>2,606,567</u>
<b>EXPENSES</b>			
Program expenses	1,271,625	-	1,271,625
Management and general	674,208	-	674,208
Fundraising	<u>318,619</u>	<u>-</u>	<u>318,619</u>
Total expenses	<u>2,264,452</u>	<u>-</u>	<u>2,264,452</u>
<b>CHANGE IN NET ASSETS</b>	78,840	263,275	342,115
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,059,383</u>	<u>1,929,122</u>	<u>3,988,505</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,138,223</u>	<u>\$ 2,192,397</u>	<u>\$ 4,330,620</u>

**LAGUNA ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Fiscal Year Ended June 30, 2020**

	<b>Program Services and Education</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 775,757	\$ 254,419	\$ 238,564	\$ 1,268,740
Employee benefits	63,440	42,260	27,136	132,836
Professional fees	141,880	107,543	2,975	252,398
Occupancy	77,311	60,164	2,433	139,908
Depreciation	-	110,299	-	110,299
Printing and postage	98,855	7,073	12,181	118,109
Office expense	20,231	42,451	25,154	87,836
Insurance	41,876	11,536	3,788	57,200
Equipment rental	23,532	27,029	2,443	53,004
Interest	-	2,872	-	2,872
Professional/consulting services and operating expenditures	14,994	8,187	3,945	27,126
Travel and conferences	13,749	375	-	14,124
Total expenses	<u>\$ 1,271,625</u>	<u>\$ 674,208</u>	<u>\$ 318,619</u>	<u>\$ 2,264,452</u>

**LAGUNA ART MUSEUM**  
**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 2020

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$	342,115
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation		110,299
Net unrealized investment loss		(18,016)
Adjustments to change in net assets (Increase) decrease in operating assets:		
Accounts receivable		63,311
Inventory		(1,316)
Prepaid expense		(7,415)
Other assets		91,757
Increase (decrease) in operating liabilities:		
Accounts payable		(62,878)
Accrued expenses		38,329
Deferred Revenue		218,819
Deferred compensation obligation		15,093
Net cash flows provided by operating activities		790,098

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of fixed assets		(33,005)
Purchases of investments, net		(260,956)
Net cash flows used in investing activities		(293,961)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on line of credit		(90,000)
Net cash flows used in financing activities		(90,000)

**NET CHANGE IN CASH** 406,137

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 115,312

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 521,449

**SUPPLEMENTAL DISCLOSURES:**

Cash paid for interest	\$	2,872
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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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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***

In accordance with Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-14, Not-for-Profit entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities, which the Organization adopted as of the beginning of the fiscal year ended June 30, 2020, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Net assets without donor restrictions*

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated none of these net assets for operating reserves and future program development.

*Net assets with donor restrictions*

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of June 30, 2020, the Organization had \$2,192,397 of net assets with donor restrictions.

***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 expenses are recognized in the accounting period in which the expense is incurred.

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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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 net assets without donor restrictions or net assets with donor restrictions 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 net assets with or without donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restrictions 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, 2020**

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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, 2020, 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.

***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, 2020, there were no cash equivalents.

***Endowment Fund Investments***

The Organization presents its investments in accordance with the Accounting Standards Codification (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 net assets without donor restrictions 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.

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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets without donor restrictions 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:

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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

***Endowment Fund Investments*** (continued)

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

***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.

All of the Organization's investments at June 30, 2020 are classified as level 1 and are all related to the Endowment Funds (see Note 4).

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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

***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 net assets without donor restrictions or net assets with donor restrictions for 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 net assets with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions 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, 5 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, 2020.

***Fundraising Expenses***

The accompanying statement of activities for the year ended June 30, 2020, includes fundraising expenses of \$318,619, which does not include special event direct expenses of \$462,617, 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, 2020**

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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. 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.

***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 undesignated net assets without donor restrictions when purchased. Contributed collection items are excluded from the financial statements.

Deaccession proceeds are required by the Organization's policy to be applied to the acquisition of works of art for the permanent collection. There was no deaccession activity during the year ended June 30, 2020.

***New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) 2014-09 Revenue from Contracts with Customers (Topic 606) to supersede previous revenue recognition guidance under U.S. GAAP. The new guidance is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance is effective for the Organization for the fiscal year ended June 20, 2021.

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, 2021. 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).

**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

**3. CASH**

Cash at June 30, 2020 consisted of cash in banks in the amount of \$521,449. 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, 2020, the Organization had no funds in excess of FDIC insured limits.

**4. ENDOWMENT FUND 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, 2020:

	<u>Fair Value (Level 1)</u>
Equities	
Mutual funds:	
Domestic	\$ 219,992
International	38,080
Real asset funds	18,792
Fixed income	539,059
Total mutual funds	<u>815,923</u>
Common stocks:	
Consumer discretionary	36,677
Consumer staples	18,515
Financials	19,921
Health care	45,439
Industrials	25,251
Information technology	127,647
Materials	5,612
Telecommunication services	9,824
International equities	39,154
Total common stocks	<u>328,040</u>
Orange County Community Foundation - Investment	508,917
Total investments	<u>\$ 1,652,880</u>

**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

**4. ENDOWMENT FUND INVESTMENTS** (continued)

Investment income is comprised of the following for the year ended June 30, 2020:

Interest	\$ 764
Dividends	30,991
Capital gains and other	21,390
Net unrealized loss	<u>(18,016)</u>
Net investment return	<u>\$ 35,129</u>

The Organization has invested \$522,911 in the Orange County Community Foundation Long Term Investment pool. The investment pool invests in a mix of global equity, US equity, small-cap, international, emerging markets, private equity and fixed income mutual funds. As of June 30, 2020, the fair value of the Organization's investment is \$508,917.

*Endowment Composition and Changes in Endowment Net Assets*

Endowment net assets are comprised entirely of donor-restricted assets. Endowment fund net assets at June 30, 2020 total \$1,820,938 and consist of investments of \$1,652,880, cash of \$66,881, and other current assets of \$101,177. Changes in the endowment net assets for the year ended June 30, 2020 are as follows:

	<b>Net Assets Net Assets with donor restrictions</b>
<b>Wells Fargo Bank:</b>	
Endowment net assets, beginning of year	<u>\$ 1,274,616</u>
Contribution of endowment assets	74,610
Investment return:	
Investment income, net	29,678
Net gain (realized and unrealized)	<u>17,994</u>
Total investment return	<u>47,672</u>
Appropriation of endowment assets for expenditure	<u>(84,877)</u>
Endowment net assets, end of year	<u>\$ 1,312,021</u>
<b>Orange County Community Fund:</b>	
Endowment net assets, beginning of year	<u>\$ 262,259</u>
Contribution of endowment assets	272,911
Investment return:	
Investment income, net	2,078
Net loss (realized and unrealized)	<u>(14,621)</u>
Total investment return	<u>(12,543)</u>
Appropriation of endowment assets for expenditure	<u>(13,710)</u>
Endowment net assets, end of year	<u>\$ 508,917</u>
Total endowment fund net assets	<u>\$ 1,820,938</u>

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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**4. ENDOWMENT FUND INVESTMENTS** (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.

**5. FIXED ASSETS, NET**

Fixed assets consist of the following at June 30, 2020:

Land	\$ 780,000
Library	96,450
Buildings and improvements	3,073,773
Furniture and fixtures	547,024
	<u>4,497,247</u>
Less: accumulated depreciation	(1,780,724)
Total fixed assets, net of depreciation	<u>\$ 2,716,523</u>

Depreciation expense for the year ended June 30, 2020 was \$110,299.

**6. ACCRUED EXPENSES**

Accrued expenses consist of the following at June 30, 2020:

Accrued payroll	\$ 5,917
Accrued vacation	68,829
401(k) payable	2,496
Total accrued expenses	<u>\$ 77,242</u>

**7. 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, 2020:

Special event - ticket sales	\$ 62,879
Special event - dues	100,000
Total deferred revenue	<u>\$ 162,879</u>

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**LAGUNA ART MUSEUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2020**

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**8. PAYCHECK PROTECTION PROGRAM (PPP) LOAN**

On April 15, 2020, the Organization received loan proceeds in the amount of \$260,500 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. The Organization may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Organization met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during in fiscal year 2021. On April 27, 2021 the organization received legal release from the SBA, and therefore, will record the amount forgiven, \$260,500, as forgiveness income in its 2021 statement of activities.

**9. LINE OF CREDIT**

The Organization has a revolving line of credit with a financial institution in the amount of \$90,000. The line of credit bears interest at a rate of 6% per year. The line of credit is secured by the Organization's endowment fund as agreed to by the Organization. As of June 30, 2020, the line of credit had an outstanding balance of \$0.

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**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:

<b>Year Ending June 30,</b>	<b>Lease Payments</b>
2021	78,342
2022	79,696
Total future lease payments	<u>\$ 158,038</u>

The Organization receives no sublease rental revenues nor pays any contingent rentals associated with these leases. For the fiscal year ended June 30, 2020, operating lease expense was \$35,080.

**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, 2020, \$7,910 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, 2020, \$8,532 of employer contributions were made to the plan.

**12. NET ASSETS WITH DONOR RESTRICTIONS**

As of June 30, 2020, net assets with donor restrictions are comprised of cash and cash equivalents and investments and are restricted as follows:

Future exhibitions	\$ 273,520
Subsequent year's operations	20,202
Permanent collection	68,446
Board member - administrative fee	2,876
Education	6,415
Endowment fund	<u>1,820,938</u>
Total net assets with donor restrictions	<u>\$ 2,192,397</u>

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**13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

As part of its liquidity management, the Organization has a goal to maintain financial assets on hand to meet 1 year of normal operating expenses. The Organization's goal is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization also has a line of credit available to assist with liquidity management. At June 30, 2020 the Organization did not have any balance outstanding on the line of credit.

The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditures are as follows:

Cash	\$ 521,449
Accounts receivable	840
Total financial assets available within one year	<u>\$ 522,289</u>

**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 September 18, 2021, 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.