



Independent Auditors' Report and  
Financial Statements for

**Laguna Art Museum**

June 30, 2021

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**Redwitz, Inc.**

Orange County  
San Francisco Bay Area  
San Diego County

3 Park Plaza, Suite 1700, Irvine, California 92614  
1 Almaden Boulevard, Suite 620, San Jose, California 95113  
4275 Executive Square, Suite 1000, La Jolla, California 92037

(949) 753-1514 • (949) 753-1535 fax  
(408) 377-3441 • (408) 377-5834 fax  
(858) 455-9000 • (858) 455-8279 fax

[www.redwitz.com](http://www.redwitz.com)

**(800) 576-1514**



# Laguna Art Museum

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## Independent Auditors' Report

To the Board of Trustees  
Laguna Art Museum  
Laguna Beach, California

We have audited the accompanying financial statements of Laguna Art Museum (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2021, 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 Laguna Art Museum as of June 30, 2021, 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.

Redwiz, Inc.

Irvine, California  
April 26, 2022

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#### Redwiz, Inc.

Orange County

3 Park Plaza, Suite 1700, Irvine, California 92614

(949) 753-1514 • (949) 753-1535 fax

San Francisco Bay Area

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# Laguna Art Museum

## Statement of Financial Position

June 30, 2021

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### ASSETS

#### Current assets

Cash and cash equivalents	\$	673,584
Grants receivable		155,420
Investments		133,426
Inventory		622
Prepaid expenses		11,081

Total current assets 974,133

Property and equipment, net of accumulated depreciation 2,542,385

#### Other assets

Endowment fund investments		2,619,329
Deposits		5,631

Total other assets 2,624,960

Total assets \$ 6,141,478

### LIABILITIES AND NET ASSETS

#### Current liabilities

Accounts payable	\$	55,067
Accrued expenses		52,202

Total current liabilities 107,269

#### Long term liabilities

Deferred compensation obligation		133,426
Note payable - CARES Act		260,540

Total long term liabilities 393,966

Total liabilities 501,235

#### Net assets

Without donor restrictions		2,278,300
With donor restrictions		3,361,943

Total net assets 5,640,243

Total liabilities and net assets \$ 6,141,478

# Laguna Art Museum

## Statement of Activities

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Contributions and grants	\$ 247,028	\$ 1,376,610	\$ 1,623,638
Admissions	51,742	-	51,742
Memberships	215,210	-	215,210
Hotel assessment	258,664	-	258,664
Special event revenue, net of direct benefit to donors of \$260,591	627,700	-	627,700
Museum store revenue, net of direct expenses of \$27,323	25,298	-	25,298
Interest and dividend income	32,216	-	32,216
Realized gain on investments	134,945	-	134,945
Unrealized gain on investments	365,377	-	365,377
Debt forgiveness - CARES Act	260,500	-	260,500
Net assets released from restriction	207,064	(207,064)	-
	<u>2,425,744</u>	<u>1,169,546</u>	<u>3,595,290</u>
Total revenue, gains and other support			
Expenses			
Program services	1,657,247	-	1,657,247
General and administrative	581,430	-	581,430
Fundraising	46,990	-	46,990
	<u>2,285,667</u>	<u>-</u>	<u>2,285,667</u>
Total expenses			
Change in net assets	<u>140,077</u>	<u>1,169,546</u>	<u>1,309,623</u>
Net assets, beginning of year	<u>2,138,223</u>	<u>2,192,397</u>	<u>4,330,620</u>
Net assets, end of year	<u>\$ 2,278,300</u>	<u>\$ 3,361,943</u>	<u>\$ 5,640,243</u>

## Laguna Art Museum

### Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 1,081,782	\$ 103,025	\$ 21,893	\$ 1,206,700
Professional fees	223,188	119,337	-	342,525
Depreciation	-	157,470	16,667	174,137
Postage and shipping	16,730	1,900	-	18,630
Printing	30,856	886	-	31,742
Insurance	73,923	12,412	280	86,615
Equipment rental	4,785	16,528	-	21,313
Interest	-	503	-	503
Computer and internet	1,803	6,825	4,200	12,828
Telephone	643	10,621	-	11,264
Utilities	16	42,098	-	42,114
Travel and conferences	11,870	69	55	11,994
Bank service charges	60	48,513	-	48,573
Artist commissions	53,334	-	-	53,334
Storage rental	71,084	5,751	-	76,835
Equipment maintenance	34,951	23,321	23	58,295
Facilities maintenance	3,355	17,726	-	21,081
Dues and subscriptions	2,465	939	2,322	5,726
Advertising	4,689	-	1,550	6,239
Taxes, licenses, and permits	26,235	3,035	-	29,270
Other expenses	2,691	564	-	3,255
Supplies	12,787	9,907	-	22,694
Total expenses	<u>\$ 1,657,247</u>	<u>\$ 581,430</u>	<u>\$ 46,990</u>	<u>\$ 2,285,667</u>

# Laguna Art Museum

## Statement of Cash Flows

For the Year Ended June 30, 2021

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### CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$	1,309,623
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Forgiveness of note payable - CARES Act		(260,500)
Depreciation		174,137
Unrealized gain on investments		(365,377)
(Increase) decrease in operating assets:		
Accounts receivable		840
Grants receivable		(155,420)
Inventory		7,128
Prepaid expenses		85
Increase (decrease) in operating liabilities:		
Accounts payable		(23,571)
Accrued expenses		(25,207)
Deferred revenue		(162,879)
Deferred compensation obligation		25,539
		<hr/>
Net cash provided by operating activities		524,398

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments		<hr/> (524,915)
Net cash used by investing activities		<hr/> (524,915)

### CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable - CARES Act		<hr/> 260,540
Net cash provided by investing activities		<hr/> 260,540
Increase in cash and cash equivalents		260,023
Cash and cash equivalents - beginning of year		<hr/> 413,561
Cash and cash equivalents - end of year	\$	<hr/> <hr/> 673,584

# Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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## Note 1 – Summary of significant accounting policies

### Nature of organization

Laguna Art Museum (the “Museum” or “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.

### Basis of accounting and presentation

The financial statements of Laguna Art Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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 that are not subject to or are no longer subject to donor-imposed stipulations. These net assets may be used at the discretion of the Organization’s management. The Board has not designated any of these net assets for operating reserves and future program development.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

### 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.

### Risks and uncertainties

In March 2020, the outbreak of a novel strain of coronavirus (“COVID-19”) became widespread in the United States and was declared a National Emergency. The COVID-19 outbreak has caused business disruption through mandated closing of non-essential business operations. The Museum was forced to close for a period of time but has resumed business operations. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on students, employees and vendors all of which are uncertain and cannot be reasonably estimated.

### Revenue recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

The Organization generates revenue from admissions, memberships, special events, product sales and fundraising activities. The Organization recognizes revenue from services, product sales and fundraising events as the performance obligations are satisfied in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services and products. For admissions and memberships this occurs over time as the services are provided using the input method. For product sales, this occurs at a point in time when the products are delivered. For fundraising events, this occurs at a point in time when the event takes place.



## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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### Note 1 – Summary of significant accounting policies (continued)

#### Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged and are recorded as with donor restrictions or without donor restrictions according to donor stipulations. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restriction to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Hotel assessments are grants received from the Laguna Beach Tourism Marketing District (TMD). The assessments are charges by hotel establishments in Laguna Beach to hotel visitors and are passed through to the TMD, who in turn, use the funds to support the arts in the community.

#### Donated materials and services

Donated materials and other noncash assets are recorded at the estimated fair market value in the period in which they are received. Donated services are recorded at fair values in the period in which they are performed. Donated services are those that (i) create or enhance the nonfinancial assets or (ii) require specialized skills and are provided by individuals possessing those skills. 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 year ended June 30, 2021, there were no donated goods and services received.

A number of unpaid volunteers have made significant contributions of their time to the Organization. However, the value of these services is not reflected in these financial statements, because the criteria for recognition have not been satisfied.

#### Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with original maturities of three months or less at the time of acquisition to be cash equivalents.

#### 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.

#### Property and equipment

Property and equipment greater than \$2,500 are capitalized at cost, or if donated, at the estimated fair value at the date of donation. 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.

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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### Note 1 – Summary of significant accounting policies (continued)

#### Long-lived assets

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. Recoverability of assets is measured by a comparison of the carrying amount of an asset to its fair value less costs of disposition or estimated future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its fair value less costs of disposition or estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There was no impairment loss recognized during the year ended June 30, 2021.

#### 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.

#### Compensated absences

Full time employees receive annual benefits for paid time off based on length of employment. Accrued vacation leave is paid to employees upon termination of employment. As of June 30, 2021, there was no accrued vacation.

#### Income taxes

The Organization is exempt from federal taxes under Internal Revenue Code Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Management of the Organization considers the likelihood of taxes imposed by taxing authorities and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur, including changes to the Organization's status as a tax exempt entity. Management believes the Organization met requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these financial statements.

#### Fundraising expenses

The accompanying statement of activities for the year ended June 30, 2021, includes fundraising expenses of \$46,990, which does not include special event direct expenses of \$260,591, 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 costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are directly charged or allocated to the functions they benefit. Costs in connection with future activities are deferred until the activity occurs.

The allocations are based on the functional category's estimated usage of the expense, as determined by management. Accordingly, certain costs have been allocated among the functional categories based on employees' time incurred and management's estimates of the usage of resources.

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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### Note 1 – Summary of significant accounting policies (continued)

#### 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 or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education or research in furtherance of public service rather than financial gain.

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 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, 2021.

#### Bequests

From time to time the Organization is named as a beneficiary of donor estate planning. Bequests are not recognized as support until all of the following conditions are met: the demise of testator, the amount of bequest is known, the Organization is certain that, based on the estates net assets, the amount bequeathed is realizable, and the probate court has declared the will valid. The Organization records all such gifts as the value is determined. During the year ended June 30, 2021, the Organization received bequests totaling \$2,500.

#### Adoption of new accounting standards

The Financial Accounting Standards Board ("FASB") issued new guidance under Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, resulting in Topic 606 in the Accounting Standards Codification ("ASC"). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customer.

The Organization adopted the requirements of the new standard as of July 1, 2020, utilizing the modified retrospective method of transition. There were no adjustments to net assets as of July 1, 2020 as a result of the adoption of the new standard.

The Organization has also adopted Accounting Standards Update No. 2018-08 *Not-For-Profit (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605), as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions.

#### New accounting standard not yet adopted

The FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)* which requires lessees to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for financial statement recognition purposes: operating leases and financial leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The standard will be applied using a modified retrospective approach with optional expedients and other special transition provisions. The new standard is effective for the Organization's fiscal year which begins on July 1, 2022. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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### Note 1 – Summary of significant accounting policies (continued)

#### Subsequent events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 26, 2022, which is the date the financial statements were available to be issued. See note 6 for disclosure of a subsequent event.

### Note 2 – Cash concentrations

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. As of June 30, 2021, the Organization had no funds in excess of FDIC insured limits.

### Note 3 – Property and equipment

Property and equipment consist of the following as of June 30, 2021:

Furniture	\$ 547,023
Library	96,450
Buildings and improvements	3,073,773
Land	<u>780,000</u>
	4,497,246
Less: accumulated depreciation	<u>(1,954,861)</u>
Total	<u>\$ 2,542,385</u>

Depreciation expense for the year ended June 30, 2021 was \$174,137.

### Note 4 – Fair value measurements

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The U.S. GAAP fair value framework uses a three-tiered approach, and fair value measurements are classified and disclosed in one of the following three categories:

Level 1 – unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 – prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

The carrying amount of cash and cash equivalents, receivables, inventory, prepaid expenses, accounts payable and accrued expenses approximate their fair values due to the short-term nature of these instruments

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

### Note 4 – Fair value measurements (continued)

The following table present the Organizations investments that are measured at fair value on a recurring basis in the accompanying financial statement as of June 30, 2021:

	Fair value using quoted prices in active markets for identical assets (Level 1)		
	Endowment Investments	Other Investments	Total
Debt securities			
Government bonds:			
US Treasury	\$ 100,141	\$ -	\$ 100,141
Equities			
Mutual funds:			
Domestic	317,318	-	317,318
International	79,969	-	79,969
Debt	528,875	133,426	662,301
Common stocks:			
Consumer discretionary	45,716	-	45,716
Consumer staples	23,906	-	23,906
Financials	21,833	-	21,833
Health care	53,904	-	53,904
Industrials	32,612	-	32,612
Information technology	149,201	-	149,201
Materials	9,854	-	9,854
International equities	55,650	-	55,650
Orange County Community Foundation – Investment pool	1,200,350	-	1,200,350
	<u>\$ 2,619,329</u>	<u>\$ 133,426</u>	<u>\$ 2,752,755</u>

Gains and losses (realized and unrealized) included in changes in net assets for the year ended June 30, 2021 are included in the statement of activities.

Investment income is comprised of the following for the year ended June 30, 2021:

Interest	\$ 4,520
Dividends	27,696
Realized gains	134,945
Unrealized gains	<u>365,377</u>
Total	<u>\$ 532,538</u>

The Organization has invested \$1,006,911 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, 2021, the fair value of the Organization's investment is \$1,200,350.

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

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### Note 5 – Accrued expenses

Accrued expenses consist of the following as of June 30, 2021:

Accrued vacation	\$ 46,819
401(k) payable	<u>5,383</u>
Total	<u>\$ 52,202</u>

### Note 6 – Note payable – CARES Act

In response to COVID-19, the Organization applied for and received two loans under the Federal Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). These loans are uncollateralized and guaranteed by the Small Business Administration (“SBA”). These loans have a forgiveness feature as long as the borrower maintains its payroll levels and uses the loan proceeds for certain qualifying expenses, including payroll, benefits, mortgage interest, rent, and utilities. The loans accrue interest at a rate of 1% per annum 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.

During the year ended June 30, 2020, the Organization applied for and received a PPP loan totaling \$260,500. The Organization received full forgiveness of the loan during the year ended June 30, 2021 and therefore, the debt forgiveness is included in the statement of activities.

During the year ended June 30, 2021, the Organization applied for and received a second PPP loan totaling \$260,540. The Organization received full forgiveness of the loan subsequent to June 30, 2021 and therefore, will record the debt forgiveness in its 2022 statement of activities.

### Note 7 – Line of credit

The Organization has a revolving line of credit with a financial institution with a maximum borrowing limit of approximately \$92,000. The line of credit bears interest at a rate of 3.25% per annum. The line of credit is secured by the Organization’s endowment fund as agreed to by the Organization. As of June 30, 2021, the line of credit had an outstanding balance of \$0.

### Note 8 – Operating leases

The Organization leases office equipment and storage space under operating lease agreements expiring at various times through June 30, 2026. Future minimum lease payments consist of the following:

Years ending <u>June 30,</u>	
2022	\$ 76,022
2023	76,490
2024	23,681
2025	5,903
2026	<u>5,903</u>
Total	<u>\$ 187,999</u>

For the fiscal year ended June 30, 2021, operating lease expense was \$93,245.

## Laguna Art Museum

Notes to Financial Statements

June 30, 2021

### Note 9 – 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 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:

- The duration and preservation of the fund
- The purposes of the Organization and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

#### 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, 2021 total \$2,702,339 and consist of investments of \$2,619,329 and cash of \$83,010. Changes in the endowment net assets for the year ended June 30, 2021 are as follows:

	Wells Fargo Bank	Orange County Community Foundation	Total
Endowment net assets, beginning of year	\$ 1,312,021	\$ 508,917	\$ 1,820,938
Contributions	180,296	484,000	664,296
Investment income	27,032	2,753	29,785
Gains (losses)	134,636	230,975	365,611
Appropriated for expenditure	(151,996)	(26,295)	(178,291)
Endowment net assets, end of year	\$ 1,501,989	\$ 1,200,350	\$ 2,702,339

#### 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

June 30, 2021

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### Note 10 – 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 matches up to 25% of the first 4% of the participating employees' salaries. During the year ended June 30, 2021, employer contributions to the plan totaled \$5,869.

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 20, 2021, the organization made no contributions to the plan. The Organization's statement of financial position includes \$133,426 of restricted cash and deferred compensation obligations as of June 30, 2021.

### Note 11 – Net assets with donor restrictions

Net assets with donor restrictions consist of the following as of June 30, 2021.

Subject to expenditure for specified purpose:	
Future exhibitions	\$ 315,828
Subsequent year's operations	20,202
Permanent collection	68,446
Education	255,128
Endowment fund	<u>2,702,339</u>
Total net assets with donor restrictions	<u>\$ 3,361,943</u>

### Note 12 – 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 one 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. As of June 30, 2021 the Organization did not have a 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:

Financial assets:	
Cash and cash equivalents	\$ 673,584
Grants receivable in less than one year	155,420
Investments	<u>2,752,755</u>
Total financial assets	3,581,759
Less: donor-imposed restrictions:	
Cash restricted by donors for specific purposes	(742,614)
Donor restricted investment in endowment	<u>(2,619,329)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 219,816</u>