



Independent Auditors' Report and
Financial Statements for

Laguna Art Museum

June 30, 2023

Laguna Art Museum

Contents

<u>Independent Auditors' Report</u>	1-2
<u>Financial Statements</u>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
<u>Notes to Financial Statements</u>	7-16



Independent Auditors' Report

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

Opinion

We have audited the financial statements of Laguna Art Museum (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Laguna Art Museum as of June 30, 2023, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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To the Board of Trustees
Laguna Art Museum

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Laguna Art Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Laguna Art Museum's ability to continue as a going concern for a reasonable period of time.

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

Redwitz, Inc.

A handwritten signature in black ink that reads "Redwitz, Inc." in a cursive, stylized font.

Irvine, California
October 16, 2023

Laguna Art Museum

Statement of Financial Position

June 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$	1,343,920
Contributions receivable		14,010
Investments		96,383
Inventory		470
Prepaid expenses and other current assets		<u>3,854</u>

Total current assets 1,458,637

Property and equipment, net of accumulated depreciation 2,372,956

Other assets

Endowment fund		2,877,221
Right-of-use asset - operating lease		17,631
Deposits		<u>2,306</u>

Total other assets 2,897,158

Total assets \$ 6,728,751

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$	85,992
Accrued expenses		60,974
Refundable deposit		2,000
Lease liability - operating lease		<u>17,736</u>

Total current liabilities 166,702

Long term liabilities

Deferred compensation obligation		<u>96,382</u>
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Total long term liabilities 96,382

Total liabilities 263,084

Net assets

Without donor restrictions		2,658,019
With donor restrictions		<u>3,807,648</u>

Total net assets 6,465,667

Total liabilities and net assets \$ 6,728,751

Laguna Art Museum

Statement of Activities

For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Grants and contributions of cash and other financial assets	\$ 1,162,190	\$ 884,394	\$ 2,046,584
Contributions of nonfinancial assets	12,936	-	12,936
Admissions	228,236	-	228,236
Memberships	138,770	-	138,770
Hotel assessment	290,573	-	290,573
Special event revenue, net of direct benefits to donors of \$56,346	362,148	-	362,148
Museum store revenue, net of direct expenses of \$67,003	48,941	-	48,941
Interest and dividend income	73	73,583	73,656
Realized gain on investments	10,749	74,353	85,102
Unrealized gain on investments	-	75,815	75,815
Other revenue	2,330	-	2,330
Employee retention tax credit refunds	307,409	-	307,409
Loss on sale of equipment	(7,157)	-	(7,157)
Facilities rental income	15,975	-	15,975
Net assets released from restriction	864,238	(864,238)	-
	<u>3,437,411</u>	<u>243,907</u>	<u>3,681,318</u>
Total revenue, gains and other support			
Expenses			
Program services	1,379,899	-	1,379,899
General and administrative	1,047,560	-	1,047,560
Fundraising	360,257	-	360,257
	<u>2,787,716</u>	<u>-</u>	<u>2,787,716</u>
Total expenses			
Change in net assets	<u>649,695</u>	<u>243,907</u>	<u>893,602</u>
Net assets, beginning of year	<u>2,008,324</u>	<u>3,563,741</u>	<u>5,572,065</u>
Net assets, end of year	<u>\$ 2,658,019</u>	<u>\$ 3,807,648</u>	<u>\$ 6,465,667</u>

Laguna Art Museum

Statement of Functional Expenses

For the Year Ended June 30, 2023

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 570,863	\$ 308,789	\$ 26,712	\$ 906,364
Payroll taxes	36,372	12,038	2,443	50,853
Employee benefits	47,135	23,186	2,191	72,512
Professional fees	387,355	265,049	195,849	848,253
Depreciation	9,427	100,211	-	109,638
Supplies	75,317	5,693	16,053	97,063
Artist commissions	-	-	88,142	88,142
Insurance	40,864	38,017	-	78,881
Legal settlement	-	73,581	-	73,581
Storage rental	71,935	-	420	72,355
Bank service charges	-	58,359	-	58,359
Utilities	2,674	55,240	-	57,914
Postage and shipping	46,015	1,630	1,147	48,792
Printing	38,564	904	7,322	46,790
Dues and subscriptions	26,602	3,861	5,444	35,907
Other expenses	-	28,458	-	28,458
Facilities maintenance	1,569	22,382	721	24,672
Computer and internet	-	18,006	3,544	21,550
Travel and conferences	11,349	6,674	3,092	21,115
Equipment rental	6,730	6,939	1,168	14,837
Equipment maintenance	4,744	5,706	1,658	12,108
Telephone	832	10,742	-	11,574
Advertising	-	-	4,351	4,351
Taxes, licenses, and permits	1,552	2,095	-	3,647
Total expenses	<u>\$ 1,379,899</u>	<u>\$ 1,047,560</u>	<u>\$ 360,257</u>	<u>\$ 2,787,716</u>

Laguna Art Museum

Statement of Cash Flows

For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 893,602
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	109,638
Reduction in right-of-use asset - operating lease	69,281
Realized gain on investments	(85,102)
Unrealized gain on investments	(75,815)
Loss on sale of equipment	7,157
(Increase) decrease in operating assets:	
Contributions receivable	(500)
Inventory	9,021
Prepaid expenses and other current assets	6,789
Increase (decrease) in operating liabilities:	
Accounts payable	17,987
Accrued expenses	8,146
Refundable deposit	2,000
Lease liability - operating lease	(69,176)
Deferred compensation obligation	(6,214)
	<hr/>
Net cash provided by operating activities	886,814

CASH FLOWS FROM INVESTING ACTIVITIES

Funds invested in endowment	(215,000)
Endowment funds held for long term purposes	(134,560)
Investment fund distributions	6,214
Proceeds from sale of equipment	5,000
Purchase of property and equipment	(39,088)
	<hr/>
Net cash used by investing activities	(377,434)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for endowment	215,000
	<hr/>
Net cash provided by financing activities	215,000

Increase in cash and cash equivalents	724,380
Cash and cash equivalents - beginning of year	619,540
	<hr/>
Cash and cash equivalents - end of year	\$ 1,343,920

SUPPLEMENTAL INFORMATION

Noncash investing and financing activities:	
Right-of-use and operating lease liability recorded upon implementation of ASC 842	\$ 86,912
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See accompanying notes to financial statements

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

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.

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.

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.

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 1 – Summary of significant accounting policies (continued)

Contributions (continued)

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 goods 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, 2023, donated nonfinancial assets recognized within the statement of activities included:

Food and supplies	\$	4,557
Services		<u>8,369</u>
	\$	<u>12,936</u>

No restricted contributions of nonfinancial assets were received for the year ended June 30, 2023. In valuing the contributions of nonfinancial assets, the fair value was estimated based on current pricing for similar or actual goods and services.

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, 40 years for library and 3 to 5 years for furniture and equipment.

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

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, 2023.

Investments

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, 2023, accrued vacation of approximately \$28,000 was included accrued expenses on the statement of financial position.

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, 2023, includes fundraising expenses of \$360,257, which does not include special event direct expenses of \$56,346, 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.

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 1 – Summary of significant accounting policies (continued)

Functional expense allocations (continued)

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.

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, 2023.

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, 2023, the Organization received no bequests.

Adoption of new accounting standard

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASU No. 2016-02") which requires entities to recognize right-of-use ("ROU") lease assets and lease liabilities on the statement of financial position and disclose key information about leasing arrangements. The Organization adopted the new standard effective July 1, 2022, the first day of the Organization's fiscal year using the modified retrospective approach. The adoption resulted in no change to beginning net assets as of July 1, 2022.

As part of the adoption of the ASU No. 2016-02, the Organization elected the transition package of practical expedients to not reassess the following: (i) lease classification of existing or expired leases; (ii) whether expired or existing contracts contain leases under the new definition of a lease; and (iii) previously capitalized initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Organization recognized right-of-use assets and lease liabilities of \$86,912 in its balance sheet as of July 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities and net assets for the year ended June 30, 2023.

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 October 16, 2023, which is the date the financial statements were available to be issued.

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

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, 2023, the Organization had approximately \$910,459 in excess of FDIC insured limits.

Note 3 – Property and equipment

Property and equipment consist of the following as of June 30, 2023:

Furniture and equipment	\$ 590,417
Library	96,450
Buildings and improvements	3,073,773
Land	<u>780,000</u>
	4,540,640
Less: accumulated depreciation	<u>(2,167,684)</u>
Total	<u>\$ 2,372,956</u>

Depreciation expense for the year ended June 30, 2023 was \$109,638.

Note 4 – Accrued expenses

Accrued expenses consist of the following as of June 30, 2023:

Accrued vacation	\$ 27,531
Accrued payroll taxes	2,854
Accrued sales tax	25,906
401(k) payable	<u>4,683</u>
Total	<u>\$ 60,974</u>

Note 5 – Line of credit

The Organization has a revolving line of credit with a financial institution with a maximum borrowing limit of approximately \$22,000. The line of credit bears interest at a rate of 4.75% per annum. The line of credit is secured by the Organization's endowment investments as agreed to by the Organization. As of June 30, 2023, the line of credit had an outstanding balance of \$0.

Note 6 – Leases

The Organization has an obligation as a lessee for facilities located in Laguna Hills, California with initial terms in excess of one year that has been classified as an operating lease. Lease and non-lease components of the lease agreements are accounted for separately. The lease provides for payments over the lease term and a maturity date of September 30, 2023. At June 30, 2023 the operating lease ROU asset and corresponding liability totaled \$17,631 and \$17,736, respectively. Total operating lease costs for the year ended June 30, 2023 were \$70,587. The remaining lease term is 3 months and the annual discount rate is 2.84%

Future maturities of the operating lease liability are as follows:

Year ending June 30, 2024	\$ 17,778
Less: present value discount	<u>(42)</u>
Total lease liability	<u>\$ 17,736</u>

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 7 – 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 and other current assets, accounts payable and accrued expenses approximate their fair values due to the short-term nature of these instruments.

The Organization has an endowment investment in a fund held by the Orange County Community Foundation (OCCF). The fund was established with OCCF to invest and administer for the Organization. The initial donation was \$1,000,000. The funds are invested in a long-term investment pool which 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, 2023, the fair value of the Organization's investment is \$541,429 (note 8).

The following table presents the Organization's equity investments that are measured at fair value on a recurring basis in the accompanying financial statement as of June 30, 2023:

	Fair value using quoted prices in active markets for identical assets (Level 1)		
	Endowment Investments	Other Investments	Total
Mutual funds:			
Domestic	\$ 314,658	\$ -	\$ 314,658
International	81,000	-	81,000
Fixed income	966,527	96,383	1,062,910
Common stocks:			
Consumer discretionary	74,257	-	74,257
Consumer staples	12,035	-	12,035
Financials	75,882	-	75,882
Health care	91,690	-	91,690
Industrials	72,368	-	72,368
Information technology	324,238	-	324,238
Materials	17,370	-	17,370
International equities	128,987	-	128,987
Real estate	77,548	-	77,548
Orange County Community Foundation – Investment pool	<u>541,429</u>	<u>-</u>	<u>541,429</u>
	<u>\$ 2,777,989</u>	<u>\$ 96,383</u>	<u>\$ 2,874,372</u>

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 7 – Fair value measurements (continued)

Gains and losses (realized and unrealized) included in changes in net assets for the year ended June 30, 2023 are included in the statement of activities.

Investment income is comprised of the following for the year ended June 30, 2023:

Interest	\$ 18,548
Dividends	55,108
Realized gains	85,102
Unrealized gain	<u>75,815</u>
Total	<u>\$ 234,573</u>

Note 8 – 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

Return objectives and risk parameters

The Organization’s 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, 2023

Note 8 – Endowment funds (continued)

Endowment composition and changes in endowment net assets

The Organization's endowment fund (the "Fund") includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Endowment fund net assets at June 30, 2023 total \$2,877,221 and consist of investments of \$2,777,989 and cash of \$99,232. Changes in the endowment net assets for the year ended June 30, 2023 are as follows:

	Wells Fargo Bank	Orange County Community Foundation	Total
Endowment net assets, beginning of year	\$ 1,446,456	\$ 1,135,288	\$ 2,581,744
Contributions	215,000	-	215,000
Investment income	70,055	3,528	73,583
Transfers between funds	600,000	(600,000)	-
Gains	102,142	48,026	150,168
Appropriated for expenditure	<u>(97,861)</u>	<u>(45,413)</u>	<u>(143,274)</u>
Endowment net assets, end of year	<u>\$ 2,335,792</u>	<u>\$ 541,429</u>	<u>\$ 2,877,221</u>

Note 9 – 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, 2023, the Organization made no employer contributions 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, 2023, the Organization made no contributions to the plan. The Organization's statement of financial position includes \$96,383 of other investments and deferred compensation obligations as of June 30, 2023.

Note 10 – Net assets without donor restrictions

Net assets without donor restrictions consist of the following as of June 30, 2023.

Board designated net assets:	
Subsequent year's operations	\$ 350,680
Endowment fund	<u>15,000</u>
Total board designated net assets	365,680
Undesignated net assets	<u>2,292,339</u>
Total net assets without donor restrictions	<u>\$ 2,658,019</u>

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 11 – Net assets with donor restrictions

Net assets with donor restrictions consist of the following as of June 30, 2023.

Subject to expenditure for specified purpose:	
Future exhibitions	\$ 287,081
Subsequent year's operations	274,334
Permanent collection	174,746
Education	209,266
Endowment fund	<u>2,862,221</u>
Total net assets with donor restrictions	<u>\$ 3,807,648</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 relies on contributions to carry out its operations. The Organization also has a line of credit available to assist with liquidity management. As of June 30, 2023 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	\$ 1,343,920
Contributions receivable in less than one year	14,010
Investments	<u>2,973,604</u>
Total financial assets	4,331,534
Less: amounts not available for general expenditure within one year:	
Cash restricted for specific purposes	(461,827)
Restricted investment in endowment	<u>(2,862,221)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,007,486</u>

Note 13 – Employee retention credit

The CARES Act provided an Employee Retention Credit ("ERC") which is a refundable tax credit against certain employment taxes for eligible employers. Subsequently, additional provisions were enacted through the Consolidated Appropriations Act and American Rescue Plan Act of 2021, which extended and expanded the qualified wage caps on these credits. The amended Employee Retention Credit is equal to 70% of qualified wages paid to employees during the quarter with a maximum of \$10,000 of qualified wages for each employee per qualifying calendar quarter. During the year ended June 30, 2023, the Organization recorded \$307,409 related to ERC on the Organization's statement of activities.

Laguna Art Museum

Notes to Financial Statements

June 30, 2023

Note 14 – Beneficial interest in funds held by third party

The Museum has a beneficial interest in an endowment fund held by the Orange County Community Foundation (OCCF). At the donor's direction, the fund was established with OCCF to invest and administer for the Museum. The Museum is named as the sole beneficiary of the fund. The initial donation was \$1,000,000 and the value of the fund as of June 20, 2023 was \$1,148,051.