



Independent Auditors' Report and
Financial Statements for

Laguna Art Museum

June 30, 2022

Laguna Art Museum

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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, 2022, 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, 2022, 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 cursive script that reads "Redwitz, Inc." in black ink.

Irvine, California
November 28, 2022

Laguna Art Museum

Statement of Financial Position

June 30, 2022

ASSETS

Current assets

Cash and cash equivalents	\$	619,540
Contributions receivable		13,510
Investments		102,597
Inventory		9,491
Prepaid expenses and other current assets		10,643

Total current assets 755,781

Property and equipment, net of accumulated depreciation 2,455,663

Other assets

Endowment fund		2,581,744
Deposits		2,306

Total other assets 2,584,050

Total assets \$ 5,795,494

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$	68,005
Accrued expenses		52,828

Total current liabilities 120,833

Long term liabilities

Deferred compensation obligation		102,596
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Total long term liabilities 102,596

Total liabilities 223,429

Net assets

Without donor restrictions		2,008,324
With donor restrictions		3,563,741

Total net assets 5,572,065

Total liabilities and net assets \$ 5,795,494

Laguna Art Museum

Statement of Activities

For the Year Ended June 30, 2022

	<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	\$ 677,869	\$ 682,951	\$ 1,360,820
Contributions of nonfinancial assets	8,394		8,394
Admissions	171,738	-	171,738
Memberships	120,460	-	120,460
Hotel assessment	276,915	-	276,915
Special event revenue, net of direct benefit to donors of \$27,413	376,075	-	376,075
Museum store revenue, net of direct expenses of \$41,356	62,333	-	62,333
Interest and dividend income	42,879	-	42,879
Realized gain on investments	25,613	-	25,613
Unrealized loss on investments	(242,478)	-	(242,478)
Other revenue	11,923	-	11,923
Employee retention tax refunds	158,782	-	158,782
Debt forgiveness - CARES Act	260,540	-	260,540
Net assets released from restriction	481,153	(481,153)	-
	<u>2,432,196</u>	<u>201,798</u>	<u>2,633,994</u>
Total revenue, gains and other support			
Expenses			
Program services	1,303,415	-	1,303,415
General and administrative	1,083,915	-	1,083,915
Fundraising	314,842	-	314,842
	<u>2,702,172</u>	<u>-</u>	<u>2,702,172</u>
Total expenses			
Change in net assets	<u>(269,976)</u>	<u>201,798</u>	<u>(68,178)</u>
Net assets, beginning of year	<u>2,278,300</u>	<u>3,361,943</u>	<u>5,640,243</u>
Net assets, end of year	<u>\$ 2,008,324</u>	<u>\$ 3,563,741</u>	<u>\$ 5,572,065</u>

Laguna Art Museum

Statement of Functional Expenses

For the Year Ended June 30, 2022

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 749,391	\$ 401,881	\$ 23,038	\$ 1,174,310
Professional fees	253,086	323,615	165,648	742,349
Depreciation	3,414	106,080	-	109,494
Artist commissions	17,287	-	75,395	92,682
Supplies	64,061	14,260	8,321	86,642
Bank service charges	-	30,160	-	30,160
Storage rental	69,912	-	-	69,912
Utilities	900	57,775	-	58,675
Insurance	9,155	41,760	-	50,915
Facilities maintenance	-	42,642	-	42,642
Travel and conferences	24,362	8,188	7,145	39,695
Dues and subscriptions	28,392	4,807	1,954	35,153
Printing	22,972	866	6,765	30,603
Scholarships	28,515	-	-	28,515
Postage and shipping	26,393	1,724	311	28,428
Equipment rental	2,609	7,956	15,780	26,345
Computer and internet	-	15,076	2,400	17,476
Equipment maintenance	2,331	9,426	3,790	15,547
Telephone	155	13,237	-	13,392
Advertising	-	280	3,602	3,882
Taxes, licenses, and permits	66	2,929	693	3,688
Other expenses	414	1,253	-	1,667
Total expenses	<u>\$ 1,303,415</u>	<u>\$ 1,083,915</u>	<u>\$ 314,842</u>	<u>\$ 2,702,172</u>

Laguna Art Museum

Statement of Cash Flows

For the Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$	(68,178)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Forgiveness of note payable - CARES Act		(260,540)
Depreciation		109,494
Realized and unrealized (gains) losses on investments		216,865
(Increase) decrease in operating assets:		
Grants receivable		155,420
Contributions receivable		(13,510)
Inventory		(8,869)
Prepaid expenses		438
Deposits		3,325
Increase (decrease) in operating liabilities:		
Accounts payable		12,938
Accrued expenses		626
Deferred compensation obligation		(30,830)
		<hr/>
Net cash provided by operating activities		117,179

CASH FLOWS FROM INVESTING ACTIVITIES

Funds invested in endowment		(112,500)
Endowment funds held for long term purposes		(96,270)
Investment fund distributions		30,829
Purchase of property and equipment		(22,772)
		<hr/>
Net cash used by investing activities		(200,713)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for endowment		112,500
		<hr/>
Net cash provided by financing activities		112,500
		<hr/>
Increase in cash and cash equivalents		28,966
Cash and cash equivalents - beginning of year		590,574
		<hr/>
Cash and cash equivalents - end of year	\$	619,540

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

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, 2022

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, 2022, donated nonfinancial assets recognized within the statement of activities included:

Services	\$	1,720
Conference enrollment		3,000
Food and supplies		3,278
Travel accommodations		396
		<hr/>
	\$	8,394
		<hr/>

No restricted contributions of nonfinancial assets were received for the year ended June 30, 2022. 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, and 3 to 5 years for furniture and equipment.

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

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, 2022.

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, 2022, accrued vacation of approximately \$47,000 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, 2022, includes fundraising expenses of \$314,842, which does not include special event direct expenses of \$27,413, 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, 2022

Note 1 – Summary of significant accounting policies (continued)

Functional expense allocations

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, 2022.

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, 2022, the Organization received no bequests.

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.

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 November 28, 2022, which is the date the financial statements were available to be issued.

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, 2022, the Organization had approximately \$342,000 in excess of FDIC insured limits.

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

Note 3 – Property and equipment

Property and equipment consist of the following as of June 30, 2022:

Furniture	\$ 569,795
Library	96,450
Buildings and improvements	3,073,773
Land	<u>780,000</u>
	4,520,018
Less: accumulated depreciation	<u>(2,064,355)</u>
Total	<u>\$ 2,455,663</u>

Depreciation expense for the year ended June 30, 2022 was \$109,494.

Note 4 – Accrued expenses

Accrued expenses consist of the following as of June 30, 2022:

Accrued vacation	\$ 46,819
Accrued payroll taxes	1,326
401(k) payable	<u>4,683</u>
Total	<u>\$ 52,828</u>

Note 5 – Note payable – CARES Act

During the year ended June 30, 2021, the Organization applied for and received a loan under the Federal Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) totaling \$260,540. The Organization received full forgiveness of the loan during the year ended June 30, 2022 and therefore, the debt forgiveness is included in the statement of activities.

Note 6 – Line of credit

The Organization has a revolving line of credit with a financial institution with a maximum borrowing limit of approximately \$72,000. 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 fund as agreed to by the Organization. As of June 30, 2022, the line of credit had an outstanding balance of \$0.

Note 7 – 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>	
2023	\$ 76,490
2024	23,681
2025	5,903
2026	<u>5,903</u>
Total	<u>\$ 111,977</u>

Operating lease expense totaled \$92,652 for the year ended June 30, 2022.

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

Note 8 – 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

The following table presents the Organizations investments that are measured at fair value on a recurring basis in the accompanying financial statement as of June 30, 2022:

	Fair value using quoted prices in active markets for identical assets (Level 1)		
	Endowment Investments	Other Investments	Total
Equities			
Mutual funds:			
Domestic	\$ 277,157	-	\$ 277,157
International	74,723	-	74,723
Debt	529,494	102,597	632,091
Common stocks:			
Consumer discretionary	34,474	-	34,474
Consumer staples	23,438	-	23,438
Financials	26,908	-	26,908
Health care	57,501	-	57,501
Industrials	32,740	-	32,740
Information technology	140,739	-	140,739
Materials	7,645	-	7,645
International equities	61,023	-	61,023
Real estate	38,165	-	38,165
Orange County Community Foundation – Investment pool	1,135,288	-	1,135,288
	<u>\$ 2,439,295</u>	<u>\$ 102,597</u>	<u>\$ 2,541,892</u>

Gains and losses (realized and unrealized) included in changes in net assets for the year ended June 30, 2022 are included in the statement of activities.

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

Note 8 – Fair value measurements (continued)

Investment income (loss) is comprised of the following for the year ended June 30, 2022:

Interest	\$ 4,570
Dividends	38,309
Realized gains	25,613
Unrealized (losses)	<u>(242,478)</u>
Total	<u>\$ (173,986)</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, 2022, the fair value of the Organization's investment is \$1,135,288.

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

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, 2022

Note 9 – Endowment funds (continued)

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, 2022 total \$2,581,744 and consist of investments of \$2,439,295 and cash of \$142,449. Changes in the endowment net assets for the year ended June 30, 2022 are as follows:

	Wells Fargo Bank	Orange County Community Foundation	Total
Endowment net assets, beginning of year	\$ 1,501,989	\$ 1,200,350	\$ 2,702,339
Contributions	171,671	-	171,671
Investment income	40,464	3,644	44,108
Gains (losses)	(224,052)	(28,102)	(252,154)
Appropriated for expenditure	(43,616)	(40,604)	(84,220)
Endowment net assets, end of year	<u>\$ 1,446,456</u>	<u>\$ 1,135,288</u>	<u>\$ 2,581,744</u>

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, 2022, 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 20, 2022, the Organization made no contributions to the plan. The Organization's statement of financial position includes \$102,596 of other investments and deferred compensation obligations as of June 30, 2022.

Note 11 – Net assets with donor restrictions

Net assets with donor restrictions consist of the following as of June 30, 2022.

Subject to expenditure for specified purpose:	
Future exhibitions	\$ 422,173
Subsequent year's operations	54,502
Permanent collection	122,246
Education	383,076
Endowment fund	<u>2,581,744</u>
Total net assets with donor restrictions	<u>\$ 3,563,741</u>

Laguna Art Museum

Notes to Financial Statements

June 30, 2022

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, 2022 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	\$ 619,540
Contributions receivable in less than one year	13,510
Investments	<u>2,684,341</u>
Total financial assets	3,317,391
Less: amounts not available for general expenditure within one year:	
Cash restricted for specific purposes	(544,419)
Restricted investment in endowment	<u>(2,581,744)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 191,228</u>

Note 13 – 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, 2022 was \$1,106,954.