



Financial Statements  
September 30, 2021

**Palm Springs Art Museum, Inc.**  
**(A California Nonprofit Corporation)**

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Financial Statements

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## Independent Auditor's Report

To the Board of Trustees  
Palm Springs Art Museum, Inc.  
Palm Springs, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Palm Springs Art Museum, Inc. (the museum) (a California nonprofit organization), which comprise the statement of financial position as of September 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the museum'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 museum'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 Palm Springs Art Museum, Inc. as of September 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
June 22, 2022

Palm Springs Art Museum, Inc.  
Statement of Financial Position  
September 30, 2021

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Assets

Current Assets

Cash	\$ 1,839,323
Promises to give, net	566,981
Prepaid expenses	94,042
Inventory	299,861

Total current assets	2,800,207
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Noncurrent Assets

Restricted cash - restricted for future operations, conservation, and scholarships	210,136
Restricted cash - restricted for collections purchases	18,527
Restricted cash equivalents - restricted for endowment	607,426
Promises to give, net	766,545
Beneficial interest in charitable trust held by others	2,968,815
Investments	21,069,115
Collections (Note 1 and Note 6)	-
Property and equipment, net	11,771,360

Total noncurrent assets	37,411,924
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Total assets	\$ 40,212,131
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Liabilities and Net Assets

Liabilities

Accounts payable	\$ 197,297
Accrued expenses and other liabilities	107,534
Deferred revenue and refundable advance	495,352

Total liabilities	800,183
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Net Assets

Without donor restrictions	10,999,260
With donor restrictions	28,412,688

Total net assets	39,411,948
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Total liabilities and net assets	\$ 40,212,131
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Palm Springs Art Museum, Inc.

Statement of Activities

Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contributions and grants	\$ 4,365,583	\$ 852,796	\$ 5,218,379
Contributions in-kind	907	-	907
Special events revenue	286,053	-	286,053
Admissions	390,416	-	390,416
Exchange portion of membership dues	130,816	-	130,816
Exhibits and programs	52,345	14	52,359
Museum store and event sales, net	199,756	-	199,756
Less costs of good sold	(26,855)	-	(26,855)
Facility use fees	23,503	-	23,503
Net assets released	652,486	(652,486)	-
	<u>6,075,010</u>	<u>200,324</u>	<u>6,275,334</u>
<b>Expenses</b>			
Program services			
Exhibitions, curatorial, and collections	1,137,092	-	1,137,092
Museum operations and facilities	2,751,679	-	2,751,679
Marketing and public engagement	357,048	-	357,048
	<u>4,245,819</u>	<u>-</u>	<u>4,245,819</u>
Supporting services			
Fundraising and membership	793,619	-	793,619
Management and general	1,742,386	-	1,742,386
	<u>2,536,005</u>	<u>-</u>	<u>2,536,005</u>
	<u>6,781,824</u>	<u>-</u>	<u>6,781,824</u>
Change in Net Assets Before Non-Operating Revenues and Expenses	(706,814)	200,324	(506,490)
<b>Non-Operating Revenues and Expenses</b>			
Net investment return	2,612	2,338,868	2,341,480
Collection purchases and maintenance	(147,440)	-	(147,440)
Proceeds on deaccessioned items	733,000	3,731,336	4,464,336
Change in value of beneficial interest in charitable trusts held by others	39,629	236,216	275,845
Reclassification of collection	162,077	-	162,077
	<u>789,878</u>	<u>6,306,420</u>	<u>7,096,298</u>
Change in Net Assets	83,064	6,506,744	6,589,808
Net Assets, Beginning of Year	<u>10,916,196</u>	<u>21,905,944</u>	<u>32,822,140</u>
Net Assets, End of Year	<u>\$ 10,999,260</u>	<u>\$ 28,412,688</u>	<u>\$ 39,411,948</u>

Palm Springs Art Museum, Inc.  
Statement of Functional Expenses  
Year Ended September 30, 2021

	Program Services			
	Exhibitions, Curatorial, and Collections	Museum Operations and Facilities	Marketing and Public Engagement	Total Program Services
Salaries and wages	\$ 561,025	\$ 994,308	\$ 192,931	\$ 1,748,264
Employee benefits	28,042	38,205	7,084	73,331
Payroll taxes	41,604	93,198	15,424	150,226
Professional services	117,047	59,040	50,225	226,312
Accounting fees	-	-	-	-
Legal fees	-	9,879	-	9,879
Advertising and promotion	-	-	32,070	32,070
Printing and copying	22,625	1,086	20,132	43,843
Postage and delivery	134,490	2,346	6,375	143,211
Office expenses	37,242	20,021	1,904	59,167
Information technology	8,123	410	18,306	26,839
Telecommunications	-	14,493	-	14,493
Equipment rental	69,631	20,697	2,154	92,482
Depreciation	-	599,949	-	599,949
Repairs and maintenance	41,636	253,865	-	295,501
Facilities security	-	32,431	-	32,431
Utilities	459	273,686	-	274,145
Costs of goods sold	-	26,855	-	26,855
Special events	-	-	-	-
Interest expense	-	3,543	-	3,543
Insurance	69,955	224,893	2,794	297,642
Travel	4,158	1,807	317	6,282
Conferences, meetings, and meals	152	-	73	225
Merchant and bank fees	549	14,133	1,224	15,906
Bad debt expense	-	237	2,735	2,972
Other	354	93,452	3,300	97,106
	<u>1,137,092</u>	<u>2,778,534</u>	<u>357,048</u>	<u>4,272,674</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	-	(26,855)	-	(26,855)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,137,092</u>	<u>\$ 2,751,679</u>	<u>\$ 357,048</u>	<u>\$ 4,245,819</u>

Palm Springs Art Museum, Inc.  
Statement of Functional Expenses  
Year Ended September 30, 2021

	Fundraising and Membership	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	\$ 286,437	\$ 842,432	\$ 1,128,869	\$ 2,877,133
Employee benefits	37,178	267,205	304,383	377,714
Payroll taxes	25,039	63,180	88,219	238,445
Professional services	26,594	117,992	144,586	370,898
Accounting fees	-	39,683	39,683	39,683
Legal fees	-	28,275	28,275	38,154
Advertising and promotion	-	-	-	32,070
Printing and copying	11,393	8,058	19,451	63,294
Postage and delivery	50,109	6,568	56,677	199,888
Office expenses	3,972	9,086	13,058	72,225
Information technology	5,500	86,287	91,787	118,626
Telecommunications	-	101,416	101,416	115,909
Equipment rental	-	22,694	22,694	115,176
Depreciation	-	-	-	599,949
Repairs and maintenance	-	61	61	295,562
Facilities security	-	400	400	32,831
Utilities	-	-	-	274,145
Costs of goods sold	-	-	-	26,855
Special events	286,053	-	286,053	286,053
Interest expense	-	54,704	54,704	58,247
Insurance	4,351	11,939	16,290	313,932
Travel	-	11,094	11,094	17,376
Conferences, meetings, and meals	5,323	2,774	8,097	8,322
Merchant and bank fees	21,096	9,602	30,698	46,604
Bad debt expense	28,507	-	28,507	31,479
Other	2,067	58,936	61,003	158,109
	<u>793,619</u>	<u>1,742,386</u>	<u>2,536,005</u>	<u>6,808,679</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	-	-	-	(26,855)
Total expenses included in the expense section on the statement of activities	<u>\$ 793,619</u>	<u>\$ 1,742,386</u>	<u>\$ 2,536,005</u>	<u>\$ 6,781,824</u>



Palm Springs Art Museum, Inc.  
Statement of Cash Flows  
Year Ended September 30, 2021

Operating Activities	
Change in net assets	\$ 6,589,808
Adjustments to reconcile change in net assets to net cash from operating activities	
Net realized/unrealized gain on investments	(2,444,486)
Depreciation	599,949
Bad debt expense	31,479
Change in value of beneficial interest in charitable trusts held by others	(275,845)
PPP Loan Forgiveness	(505,630)
Proceeds from deaccessioning process	(4,464,336)
Collection purchases and maintenance	(147,440)
Reclassification of collection	(162,077)
Changes in operating assets and liabilities	
Promises to give, net	626,747
Prepaid expenses	111,795
Inventory	(12,600)
Accounts payable	35,139
Accrued expenses and other liabilities	(136,313)
Deferred revenue	491,356
Net Cash from Operating Activities	<u>337,546</u>
Investing Activities	
Proceeds from sale of investments	23,624,092
Purchase of investments	(26,732,953)
Proceeds from deaccessioning process	4,464,336
Collection purchases and maintenance	147,440
Purchase of property and equipment	(50,001)
Net Cash used for Investing Activities	<u>1,452,914</u>
Financing Activities	
Payments on line of credit	(2,180,000)
Net Change in Cash, Restricted Cash, and Restricted Cash Equivalents	(389,540)
Cash, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>3,064,952</u>
Cash, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 2,675,412</u>
Cash	
Cash	\$ 1,839,323
Restricted cash - restricted for future operations, conservation, and scholarships	210,136
Restricted cash - restricted for collections purchases	18,527
Restricted cash equivalents - restricted for endowment	607,426
	<u>\$ 2,675,412</u>
Supplemental Cash Flow Information	
Interest paid	<u>\$ 58,247</u>

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Palm Springs Art Museum, Inc. (the museum) was incorporated in the state of California on October 13, 1938, as a nonprofit organization with a natural history focus. In 1976, the museum moved to its current home on Museum Drive in downtown Palm Springs. Fine art became the museum's dominant focus after a bequest in 1998 by major donor Steve Chase of his extensive collection of art and design objects, a designation that was made official by the board of trustees in 2004.

The museum is housed in a 132,000 square foot facility which features the 430-seat Annenberg Theater, an 88-seat Lecture Hall, two sculpture gardens, and a bistro. Additional museum assets include the Palm Springs Art Museum Architecture and Design Center, Edwards Harris Pavilion, a 10,775 square foot midcentury modern commercial bank that was renovated in 2014; the four-acre Faye Sarkowsky Sculpture Garden in Palm Desert; and Albert Frey's iconic home, *Frey House II*, which is situated on the mountainside behind the main museum.

The museum has a wide-reaching and growing permanent collection of over 12,000 objects rooted in modern and contemporary art, architecture, and design that has developed from our unique history, culture, and place. The presentation of these objects as well as the museum's programming creates transformative experiences that expand everyone's understanding of themselves and the world. Furthermore, the museum leadership is strongly committed to expanding its reach into the underserved audiences in the region and to becoming a more community-focused institution. In recent years, the museum has deepened its relationship with the Riverside Unified School District, hosted more lower-cost or free events, launched a residency program to give emerging artists creative freedom to explore, and moved further into the digital world by offering live-streamed programming and increased video content. All of these efforts contribute to the ongoing goal of being an inclusive, dynamic and evolving institution that reflects the fullness of the community.

### **Cash and Cash Equivalents**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

### **Restricted Cash and Cash Equivalents**

Amounts included in restricted cash and cash equivalents represent funds required to be used for purchases of collections and endowment and future operations, conservation, and scholarships.

**Promises to Give**

The museum records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At September 30, 2021, the allowance was \$12,000.

**Inventory**

Inventory is comprised of program-related merchandise held for sale in the gift shop and is stated at the lower of cost or net realizable value determined by the first-in first-out method. There were no indicators of inventory obsolescence during the year ended September 30, 2021.

**Property and Equipment**

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 4 to 50 years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended September 30, 2021.

**Beneficial Interest in Charitable Trusts Held by Others**

The museum has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. The museum has neither possession nor control over the assets of the trusts. At the date the museum receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of activities and a beneficial interest in charitable trusts held by others is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statement of financial position, using a discount rate of 3%, with changes in fair value recognized in the statement of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

### **Collections**

The museum's collections comprise more than 12,000 works of art including sculptures, paintings, drawings, prints, photographs, ceramics, and contemporary glass; Native American baskets, weavings, pottery and artifacts; Mesoamerican artifacts; and architectural drawings and archives. In addition, the collections include the Stephen Willard Photography Archive and the Bill Anderson Photographic Archive, totaling approximately 42,000 images and archival materials. The collections are maintained for public exhibition, education, research, and the furtherance of public service rather than for financial gain. Since inception, the museum's collections, acquired through donations and purchases, are not recognized as assets in the accompanying financial statements. Purchases of collections are recorded as decreases in the appropriate net asset classification in the year of acquisition.

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

### **Deferred Revenue**

Deferred revenue consist primarily of amounts received in advance for future special events and membership dues. Contributions are received from donors to support future special events for the museum. These contributions are recognized when the event is held. Membership dues are collected and amortized over the membership period.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The museum reports unconditional contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. The museum reports conditional contributions as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other contributions subject to donor restrictions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

### **Revenue and Revenue Recognition**

Revenue is recognized from gift shop sales at the time of purchase. The museum recognizes revenue from ticket sales at the time of admission. Membership dues, which are nonrefundable, are comprised of an exchange element based on the benefits received, and a contribution element for the difference. The museum recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. The museum records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Except for goods and services provided in connection with membership dues, which are transferred over the period of membership, all goods and services are transferred at a point in time.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The museum's federal contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expense and as of September 30, 2021, the museum had \$323,804 that it has received in advance and can be recognized when those conditions are met.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

### **Advertising Costs**

Advertising costs are expensed as incurred and were \$32,470 during the year ended September 30, 2021.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which is allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

**Income Taxes**

The museum is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualify for the charitable contribution deduction, and has been determined not to be a private foundation. The museum is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the museum is subject to income tax on net income that is derived from business activities that are unrelated to the museum's exempt purposes. The museum determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the museum has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The museum would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the museum to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

**Financial Instruments and Credit Risk**

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed by the museum to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. To date, no losses have been experienced in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members and organizations supportive of the museum's mission. Investments are made by diversified investment managers whose performance is monitored by the museum and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the museum and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

### Change in Accounting Principle

In May 2014, the FASB issued guidance Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The museum adopted ASC 606 with a date of the initial application of July 1, 2019, using the full-retrospective method.

The adoption of ASC 606 did not have a significant impact on the museum's statement of financial position, results of its activities, or cash flows. The museum's revenue arrangements generally consist of a single performance obligation to transfer services. There are no significant contract assets or accounts receivable associated with these revenue streams. Based on the museum's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

### Subsequent Events

The museum has evaluated subsequent events through June 22, 2022, the date the consolidated financial statements were available to be issued.

### Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 1,839,323
Promises to give, net	<u>522,625</u>
	<u>\$ 2,361,948</u>

As part of a liquidity management plan, the museum has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

### **Note 3 - Fair Value Measurements and Disclosures**

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the museum's assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of investment assets are classified within Level 1 because they comprise equity securities and mutual funds with readily determinable fair values based on daily redemption values. The fair values of beneficial interests in charitable trusts held by others are determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. The fair value of beneficial interest in assets held by others is based on the fair value of fund investments as reported by the trustees. These are considered to be Level 3 measurements.



The following table presents assets and liabilities measured at fair value on a recurring basis at September 30, 2021:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Beneficial interests in				
Charitable trusts held by others	\$ 2,968,815	\$ -	\$ -	\$ 2,968,815
Endowment investments				
U.S. equities	11,185,986	\$ 11,185,986	\$ -	\$ -
International equities	3,224,846	3,224,846	-	-
Fixed income funds	4,442,820	4,442,820	-	-
Emerging markets	1,170,869	1,170,869	-	-
Long/short hedge funds	1,044,594	1,044,594	-	-
Total investments	21,069,115	21,069,115	-	-
	<u>\$ 24,037,930</u>	<u>\$ 21,069,115</u>	<u>\$ -</u>	<u>\$ 2,968,815</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2021:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)	
	Beneficial Interests	
		Charitable Trusts
Balance at September 30, 2020		\$ 2,692,971
Change in value of beneficial interests in charitable trusts held by others		275,845
Balance at September 30, 2021		<u>\$ 2,968,816</u>

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at September 30, 2021:

Within one year	\$ 566,981
In one to five years	898,013
	1,464,994
Less discount to net present value at rates of 3.00%	(119,468)
Less allowance for uncollectable promises to give	(12,000)
	\$ 1,333,526

**Note 5 - Property and Equipment**

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

Land	\$ 1,798,000
Equipment	4,233,548
Buildings	20,482,094
Site development	160,432
Vehicles	71,088
Furniture and fixtures	2,788,375
	29,533,537
Less accumulated depreciation	(17,762,177)
Total property and equipment, net	\$ 11,771,360

Depreciation expense for the year ended September 30, 2021 was \$599,949.

The museum recognized \$162,077 of non-operating, non-cash revenue from the write-off of accumulated depreciation relating to the reclassification of the Frey House II from property and equipment to collections.

**Note 6 - Collections**

Collections consist of the following as of September 30, 2021:

Art	\$ 70,681,671
Anthropology	1,893,697
Reserve	3,459,155
Frey House II	525,552
Library, archives, and other items	7,400,504
Items held for deaccession	460,833
	<u>\$ 84,421,412</u>

Collections consist of art objects that are held for educational and curatorial purposes, including public display and research. Each of the items is catalogued, preserved, and cared for, and kept unencumbered. Activities verifying their existence and assessing their condition are performed continuously. Collections acquired either through purchase or donation are not capitalized. The proceeds from deaccession of collections may be used for acquisitions of new collections, or the direct care of existing collections. The museum adheres to the ethical principles and definition of direct care established by the American Alliance of Museums and considers direct care to entail actions that enhance the life, usefulness, or quality of the collections to ensure they will continue to benefit the public. The museum’s collections management policy includes conservation services, archival services, collections care investments identified through a conservation assessment and/or plan, and collections care training for staff and volunteers, as activities that are considered direct care of collections.

Purchases of collections are recorded as decreases in net assets without donor restrictions if purchased with assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Contributions of collections are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities as nonoperating revenues.

During the year ended September 30, 2021, deaccessioned works of art were sold, realizing proceeds of \$4,464,336. Proceeds from the deaccessioning process are designated for future acquisitions of items for the collections. Purchases of collections were \$147,440 during the year ended September 30, 2021.

As part of the plan approved by the Board in June 2005, works of art not deemed to be strategic were deaccessioned from the collections. It was agreed by the Board that deaccessioning proceeds would be credited to the art acquisition account. The Board also approved the use of net cash surpluses in the art acquisition account to repay external debt for a limited time, and that the borrowings from the account would be repaid over time. The deaccessioning procedures were discussed with the American Association of Museums and with the Accreditation Committee in February 2007, and such practices confirmed by such organizations as being appropriate and consistent with “best practices.”

Funds were then borrowed from the art acquisition account to repay to the museum’s external debts. As of September 30, 2021 a balance of \$777,716 remains to be reimbursed to the art acquisition account as funds become available. Any new deaccessioned funds raided by the museum would be strictly for the acquisition of works of art. Beginning with fiscal year 2019, the museum has expanded the use of these funds to include the direct care of existing works of art within the collections, as discussed in Note 1.

**Note 7 - Line of Credit**

The museum has a \$3,000,000 revolving line of credit with a bank, secured by real property. Borrowings under the line bear interest at the bank’s prime rate plus 2.75%, or a floor of 6.00% (6.00% at September 30, 2021). Accrued interest and principal are due at maturity (April 15, 2023). The agreement requires the museum to comply with certain financial and non-financial covenants. The balance on the line of credit was \$0 as of September 30, 2021.

**Note 8 - Revenue from Contracts with Customers**

The beginning and ending balances for deferred revenue were as follows for the year ended September 30, 2021:

	2021	2020
Deferred revenue	\$ 171,548	\$ 3,996

**Note 9 - Leases**

Copiers, a postage machine, and the museum’s sculpture garden is leased under various operating leases, and vehicles and equipment under various capital leases expiring at various dates through 2024.

Future minimum lease payments are as follows:

Years Ending September 30,	Operating Leases
2022	\$ 26,445
2023	26,445
2024	3,808
Total minimum lease payments	\$ 56,698

Rent expense for the year ended September 30, 2021 totaled \$25,757.

**Note 10 - Paycheck Protection Program**

The museum was granted a \$505,630 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The museum has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. The museum initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The museum has recognized \$505,630 as contribution revenue for the year ended September 30, 2021.

**Note 11 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenditure for Specified Purpose	
Collection purchases and maintenance	\$ 5,618,818
Exhibits and programs	625,850
Education	40,011
General museum operations	274,788
	6,559,467
Subject to the Passage of Time	
Beneficial interest in charitable trust held by others	2,968,815
General museum operations	755,044
Event sponsorship	184,157
	3,908,016
Endowments	
Subject to appropriation and expenditure when a specified event occurs	
Restricted by donors for	
General museum operations	4,200,000
Collection purchases and maintenance	1,540,830
Exhibits and programs	1,383,131
Education	625,000
	7,748,961
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation	
General museum operations	10,196,244
	17,945,205
Total endowments	17,945,205
Total net assets with donor restrictions	\$ 28,412,688

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2021:

Expiration of Time Restrictions	\$ 227,000
Satisfaction of Purpose Restrictions	
Collection purchases and maintenance	44,650
Exhibits and programs	380,836
	652,486
	\$ 652,486

**Note 12 - Endowment**

The museum’s endowment (“the Endowment”) consists of funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees. During fiscal year ending September 30, 2021, the museum chose to suspend its spending rate during the fiscal year.

The museum’s Board of Trustees 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 date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the museum retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The museum 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

As of September 30, 2021, endowment net asset composition by type of fund is as follows:

	With Donor Restrictions
Donor-restricted endowment funds	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 10,196,244
Subject to appropriation and expenditures	7,748,961
	\$ 17,945,205

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in donor restricted net assets, when applicable.

The museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the museum must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve the real (i.e., inflation-adjusted) purchasing power of the endowment, and are restricted to investments in certificates of deposit, passbook and money market accounts, and mutual funds. Actual returns in any given year will vary due to market fluctuations.

To satisfy its long-term rate-of-return objectives, the museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in Endowment net assets for the year ended September 30, 2021 is as follows:

	With Donor Restrictions
Endowment net assets, beginning of year	\$ 15,606,337
Investment return, net	2,332,918
Contributions	5,950
Endowment net assets, end of year	\$ 17,945,205

### **Note 13 - Related Party Transactions**

During the year ended September 30, 2021, board members made contributions to the museum for membership dues and special event sponsorships in the total of \$1,358,387.

During the year ended September 30, 2021, a law firm in which a board member is an attorney provided legal services to the museum totaling \$9,924.

### **Note 14 - Employee Benefit Plans**

#### **Defined Contribution Plan**

The museum has a defined contribution plan covering substantially all employees. The plan provides that employees who have attained the age 21 and completed 6 months of service can voluntarily contribute up to 75% of their earnings to the plan. Safe harbor employer contributions are made to the plan of 100% of the first 4% of each participant's eligible compensation contributed to the plan. Additional discretionary employer contributions are made to the plan and are determined and authorized by the Board of Directors each plan year. Total expense related to the plan for the year ended September 30, 2021, was \$59,574.