



Financial Statements
June 30, 2023

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Palm Springs Art Museum, Inc., which comprise the statements of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the period of October 1, 2022 through June 30, 2023, 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 Palm Springs Art Museum, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the period 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 Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of Palm Springs Art Museum, Inc. 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 these 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 Palm Springs Art Museum, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities of 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 auditor's 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.

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 Palm Springs Art Museum, Inc.'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 Palm Springs Art Museum, Inc.'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.

Eide Bailly LLP

Rancho Cucamonga, California
December 11, 2023

Palm Springs Art Museum, Inc.
Statement of Financial Position
June 30, 2023

Assets	
Current Assets	
Cash	\$ 158,093
Promises to give, net	746,712
Employee Retention Credit receivable	1,194,518
Prepaid expenses	144,669
Inventory	261,615
Total current assets	2,505,607
Noncurrent Assets	
Restricted cash equivalents - restricted for endowment	598,754
Promises to give, net	633,173
Beneficial interest in charitable trust held by others	728,883
Investments	22,038,987
Collections (Note 1 and Note 6)	-
Finance lease right-of-use assets	105,437
Property and equipment, net	11,643,345
Total noncurrent assets	35,748,579
Total assets	\$ 38,254,186
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 225,226
Accrued expenses and other liabilities	344,654
Deferred revenue and refundable advance	96,476
Current maturities of finance lease liability	29,039
Total current liabilities	695,395
Finance Lease Liability, less current maturities	78,027
Total liabilities	773,422
Net Assets	
Without donor restrictions	9,599,795
With donor restrictions	27,880,969
Total net assets	37,480,764
Total liabilities and net assets	\$ 38,254,186

Palm Springs Art Museum, Inc.

Statement of Activities

Period Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and grants	\$ 4,006,765	\$ 1,340,847	\$ 5,347,612
Special events revenue	333,030	-	333,030
Admissions	1,059,852	-	1,059,852
Exchange portion of membership dues	168,032	-	168,032
Exhibits and programs	110,268	-	110,268
Museum store and event sales	520,117	-	520,117
Less costs of goods sold	(228,403)	-	(228,403)
Facility use fees	368,526	-	368,526
Net assets released from restrictions	1,652,050	(1,652,050)	-
Total revenue and support	7,990,237	(311,203)	7,679,034
Expenses			
Program services			
Exhibitions, curatorial, and collections	1,390,422	-	1,390,422
Museum operations and facilities	3,387,148	-	3,387,148
Marketing and public engagement	1,100,655	-	1,100,655
Total program services	5,878,225	-	5,878,225
Supporting services			
Fundraising and membership	817,115	-	817,115
Management and general	1,318,277	-	1,318,277
Total supporting services	2,135,392	-	2,135,392
Total expenses	8,013,617	-	8,013,617
Change in Net Assets Before Non-Operating Revenues and Expenses	(23,380)	(311,203)	(334,583)
Non-Operating Revenues and (Expenses)			
Net investment return	(3,910)	2,931,213	2,927,303
Collection purchases and maintenance	(83,500)	-	(83,500)
Change in value of beneficial interest in charitable trusts held by others	47,070	71,134	118,204
Total non-operating revenues and (expenses)	(40,340)	3,002,347	2,962,007
Change in Net Assets	(63,720)	2,691,144	2,627,424
Net Assets, Beginning of Period	9,663,515	25,189,825	34,853,340
Net Assets, End of Period	\$ 9,599,795	\$ 27,880,969	\$ 37,480,764

Palm Springs Art Museum, Inc.
Statement of Functional Expenses
Period Ended June 30, 2023

	Program Services			
	Exhibitions, Curatorial, and Collections	Museum Operations and Facilities	Marketing and Public Engagement	Total Program Services
Salaries and wages	\$ 498,143	\$ 1,667,335	\$ 473,956	\$ 2,639,434
Employee benefits	36,573	116,887	23,962	177,422
Payroll taxes	41,673	149,865	36,459	227,997
Professional services	409,812	174,954	268,867	853,633
Accounting fees	-	-	-	-
Legal fees	-	-	-	-
Advertising and promotion	-	-	11,891	11,891
Printing and copying	41,807	456	23,901	66,164
Postage and delivery	72,486	9,642	17,076	99,204
Office expenses	113,036	85,687	13,685	212,408
Information technology	514	36,327	557	37,398
Telecommunications	10,500	34,813	9,744	55,057
Exhibition materials and supplies	36,141	-	-	36,141
Equipment rental	5,479	34,702	2,558	42,739
Depreciation and amortization	-	447,150	-	447,150
Repairs and maintenance	2,977	173,555	-	176,532
Facilities security	-	29,338	-	29,338
Utilities	1,654	227,127	265	229,046
Costs of goods sold	-	228,403	-	228,403
Special events	-	-	-	-
Interest expense	-	-	-	-
Insurance	56,520	62,429	15,429	134,378
Travel	38,159	4,837	16,710	59,706
Conferences, meetings, and meals	7,428	15,896	133,014	156,338
Merchant and bank fees	812	60,758	2,035	63,605
Other	16,708	55,390	50,546	122,644
	<u>1,390,422</u>	<u>3,615,551</u>	<u>1,100,655</u>	<u>6,106,628</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	<u>-</u>	<u>(228,403)</u>	<u>-</u>	<u>(228,403)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 1,390,422</u>	<u>\$ 3,387,148</u>	<u>\$ 1,100,655</u>	<u>\$ 5,878,225</u>

Palm Springs Art Museum, Inc.
Statement of Functional Expenses
Period Ended June 30, 2023

	Fundraising and Membership	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	\$ 269,794	\$ 606,869	\$ 876,663	\$ 3,516,097
Employee benefits	8,069	143,112	151,181	328,603
Payroll taxes	19,152	44,201	63,353	291,350
Professional services	44,143	248,281	292,424	1,146,057
Accounting fees	2,000	30,850	32,850	32,850
Legal fees	-	42,211	42,211	42,211
Advertising and promotion	-	-	-	11,891
Printing and copying	16,457	687	17,144	83,308
Postage and delivery	17,551	3,638	21,189	120,393
Office expenses	1,993	11,380	13,373	225,781
Information technology	7,766	46,269	54,035	91,433
Telecommunications	5,641	13,796	19,437	74,494
Exhibition materials and supplies	-	-	-	36,141
Equipment rental	-	30,816	30,816	73,555
Depreciation	-	3,070	3,070	450,220
Repairs and maintenance	-	-	-	176,532
Facilities security	-	-	-	29,338
Utilities	-	-	-	229,046
Costs of goods sold	-	-	-	228,403
Special events	333,030	-	333,030	333,030
Interest expense	-	21,588	21,588	21,588
Insurance	8,931	21,292	30,223	164,601
Travel	5,257	13,071	18,328	78,034
Conferences, meetings, and meals	51,931	6,575	58,506	214,844
Merchant and bank fees	23,955	12,453	36,408	100,013
Other	1,445	18,118	19,563	142,207
	<u>817,115</u>	<u>1,318,277</u>	<u>2,135,392</u>	<u>8,242,020</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	-	-	-	(228,403)
Total expenses included in the expense section on the statement of activities	<u>\$ 817,115</u>	<u>\$ 1,318,277</u>	<u>\$ 2,135,392</u>	<u>\$ 8,013,617</u>

Palm Springs Art Museum, Inc.
Statement of Cash Flows
Period Ended June 30, 2023

Operating Activities	
Change in net assets	\$ 2,627,424
Adjustments to reconcile change in net assets to net cash used for operating activities	
Net realized/unrealized gain on investments	(2,927,303)
Depreciation and amortization	450,220
Change in value of beneficial interest in charitable trusts held by others	(118,204)
Collection purchases and maintenance	83,500
Changes in operating assets and liabilities	
Promises to give	362,378
Accounts receivable	(1,194,518)
Prepaid expenses	74,751
Inventory	(19,306)
Finance lease assets and liabilities	(2,077)
Accounts payable	(91,904)
Accrued expenses and other liabilities	(31,433)
Deferred revenue and refundable advance	<u>(78,652)</u>
Net Cash used for Operating Activities	<u>(865,124)</u>
Investing Activities	
Proceeds from sale of investments	4,824,843
Purchase of investments	(7,267,477)
Proceeds from beneficial interest in charitable trusts held by others	2,366,191
Collection purchases and maintenance	(83,500)
Purchase of property and equipment	<u>(626,618)</u>
Net Cash used for Investing Activities	<u>(786,561)</u>
Net Change in Cash and Restricted Cash Equivalents	(1,651,685)
Cash and Restricted Cash Equivalents, Beginning of Period	<u>2,408,532</u>
Cash and Restricted Cash Equivalents, End of Period	<u>\$ 756,847</u>
Cash	\$ 158,093
Restricted cash equivalents - restricted for endowment	<u>598,754</u>
	<u>\$ 756,847</u>
Supplemental Cash Flow Information	
Interest paid	<u>\$ 21,588</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, a store, 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; Albert Frey and A. Lawrence Kocher’s Aluminaire House™, the first all-metal home built in the U.S. which is now permanently installed next to the Museum.

The Museum has a wide-reaching and growing permanent collection of over 16,000 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 expands 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 these efforts contribute to the ongoing goal of being an inclusive, dynamic, and evolving institution that reflects the fullness of the community.

Concentration of Credit Risk

The Museum maintains its cash in bank deposit accounts which can periodically exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023, the Museum had no funds in excess of FDIC-insured limits.

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.

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 June 30, 2023, the allowance was \$12,000.

Employee Retention Credit Receivable

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (“the Credit”) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 (collectively “the Acts”) expanded the availability of the Credit and extended the Credit through December 31, 2021. The Acts increased the credit to 70% of qualified wages, capped at \$10,000 per quarter, through 2021. As a result of the changes to the credit initiated through the Acts, the maximum credit per employee increased from \$5,000 in 2020 to \$28,000 in 2021.

During the period ended June 30, 2023, the Museum recorded a \$1,194,518 benefit related to the Credit. The Museum recorded the benefit within the statement of activities by recording the Credit as a reduction of salaries and wages.

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 period ended June 30, 2023.

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 period ended June 30, 2023.

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 16,000 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 those 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 expenses. At June 30, 2023, the Museum had \$0 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. No contributed goods were received during the period ended June 30, 2023.

Advertising Costs

Advertising costs are expensed as incurred and were \$12,391 during the period ended June 30, 2023.

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 Internal Revenue Services ("IRS") as exempt from federal income taxes under Internal Revenue Code ("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

Investments are made by diversified investment managers whose performance is monitored by the Museum and the investment committee of the Board of Trustees. 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

Effective October 1, 2022, the Museum adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (“Topic 842”). The Museum elected to apply the guidance as of October 1, 2022, the beginning of the adoption period. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Museum has elected the package of practical expedients permitted in Accounting Standards Codification (“ASC”) Topic 842. Accordingly, the Museum accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Museum recognized on October 1, 2022, the beginning of the adoption period, a financing lease liability of \$13,099, and a financing right-of-use asset of \$13,099. The adoption of the new standard did not materially impact the Museum’s Statement of Activities or Statement of Cash Flows. See Note 9 for further disclosure of the Museum’s lease contracts.

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:

	2023
Cash	\$ 158,093
Promises to give, net	746,712
Employee Retention Credit receivable	1,194,518
	\$ 2,099,323

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 June 30, 2023:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interests in				
Charitable trusts held by others	\$ 728,883	\$ -	\$ -	\$ 728,883
Endowment investments				
U.S. equities	10,863,139	10,863,139	-	-
International equities	2,730,907	2,730,907	-	-
Fixed income funds	7,234,413	7,234,413	-	-
Emerging markets	1,210,528	1,210,528	-	-
Total endowment investments	22,038,987	22,038,987	-	-
	<u>\$ 22,767,870</u>	<u>\$ 22,038,987</u>	<u>\$ -</u>	<u>\$ 728,883</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 period ended June 30, 2023:

	<u>Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)</u>
	<u>Beneficial Interests</u>
	<u>Charitable Trusts</u>
Balance at September 30, 2022	\$ 2,976,870
Change in value of beneficial interests in charitable trusts held by others	118,204
Proceeds from beneficial interest in charitable trusts held by others	<u>(2,366,191)</u>
Balance at June 30, 2023	<u>\$ 728,883</u>

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2023:

Within one year	\$ 746,712
In one to five years	694,559
	1,441,271
Less discount to net present value at rates of 3.00%	(49,386)
Less allowance for uncollectable promises to give	(12,000)
	\$ 1,379,885

At June 30, 2023, four donors accounted for 69% of total promises to give. One donor accounted for approximately 22% of total contribution revenue for the period ended June 30, 2023.

Note 5 - Property and Equipment

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

Buildings	\$ 20,772,274
Equipment	4,285,351
Furniture and fixtures	2,997,423
Land	1,798,000
Construction in progress	354,669
Site development	160,432
Vehicles	71,088
Intellectual property	5,700
	30,444,937
Less accumulated depreciation	(18,801,592)
	\$ 11,643,345

Note 6 - Collections

Collections consist of the following as of June 30, 2023:

Art	\$ 91,669,025
Anthropology	1,893,697
Reserve	3,459,305
Frey House II	525,552
Library, archives, and other items	7,407,504
Items held for deaccession	460,833
	\$ 105,415,916

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 period ended June 30, 2023, no deaccessioned works of art were sold. Proceeds from the deaccessioning process, when received, are designated for future acquisitions of items for the collections. Purchases of collections totaled \$83,500 during the period ended June 30, 2023.

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 June 30, 2023, a balance of \$622,174 remains to be reimbursed to the art acquisition account. During the period ended June 30, 2023, the Museum repaid the art acquisition account \$77,771 from general funds. Any new deaccessioned funds raised by the Museum would be strictly for the acquisition of works of art.

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 greater of the BSBY Daily Floating Rate plus 2.50%, or a floor of 3.75% (7.66% at June 30, 2023). The agreement matures on March 10, 2025. 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 June 30, 2023.

Note 8 - Revenue from Contracts with Customers

The beginning and ending balances for deferred revenue were as follows for the period ended June 30, 2023:

	2023	2022
Deferred revenue	\$ 96,476	\$ 175,128

Note 9 - Leases

The Museum leases certain office equipment for various terms under long-term, non-cancelable finance lease agreements. The leases expire at various dates through 2028.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Museum estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Museum’s applicable borrowing rates and the contractual lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Finance lease costs include interest expense and amortization expense totaling \$2,553 and \$3,706, respectively, for the period ended June 30, 2023. Short-term lease costs totaled \$13,500 for the period ended June 30, 2023. The weighted-average remaining lease term in years was 2.61 as of June 30, 2023. The weighted-average discount rate was 6.00% as of June 30, 2023.

The future minimum lease payments under noncancelable finance leases with terms greater than one year are listed below as of June 30, 2023:

	<u>Finance</u>
2024	\$ 29,039
2025	26,890
2026	25,816
2027	24,682
2028	<u>15,912</u>
Total lease payments	122,339
Less interest	<u>(15,273)</u>
Present value of lease liabilities	<u><u>\$ 107,066</u></u>

Note 10 - Net Assets with Donor Restrictions

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

	2023
Subject to Expenditure for Specified Purpose	
Collection purchases and maintenance	\$ 7,901,786
Exhibits and programs	1,880,066
Education	51,578
General museum operations	3,388
	9,836,818
Subject to the Passage of Time	
Beneficial interest in charitable trust held by others	2,851,438
General museum operations	1,079,063
Event sponsorship	13,475
	3,943,976
Endowments	
Subject to appropriation and expenditure when a specified event occurs	
Restricted by donors for	
General museum operations	3,684,581
Exhibits and programs	322,468
Education	571,526
	4,578,575
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation	
General museum operations	9,521,600
Total endowments	14,100,175
Total net assets with donor restrictions	\$ 27,880,969

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 period ended June 30, 2023:

Expiration of Time Restrictions	\$ 490,700
Satisfaction of Purpose Restrictions	
Collection purchases and maintenance	171,100
Exhibits and programs	607,492
Education	32,011
General museum operations	<u>270,156</u>
	<u>1,571,459</u>
Restricted-purpose spending-rate distributions and appropriations	
Collection purchases and maintenance	-
Education	-
Exhibits and programs	591
General museum operations	<u>80,000</u>
	<u>80,591</u>
	<u><u>\$ 1,652,050</u></u>

Note 11 - 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.

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 June 30, 2023, 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	\$ 9,521,600
Subject to appropriation and expenditures	4,578,575
	\$ 14,100,175

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 Generally Accepted Accounting Principles, 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 period ended June 30, 2023 is as follows:

	With Donor Restrictions
Endowment net assets, beginning of period	\$ 12,195,226
Investment return, net	2,931,213
Contributions	6,566
Appropriation of endowment assets pursuant to spending-rate policy	(346,850)
Reclassifications	(685,980)
	\$ 14,100,175

Note 12 - Related Party Transactions

During the period ended June 30, 2023, board members made contributions to the Museum for membership dues and special event sponsorships in the total of \$1,225,620.

During the period ended June 30, 2023, a law firm in which a board member is an attorney provided legal services to the Museum totaling \$8,250.

Note 13 - 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 Trustees each plan year. Total expense related to the plan for the period ended June 30, 2023, was \$62,292.

Note 14 - Subsequent Events

The Museum collected \$871,860 of the Employee Retention Credit receivable between June 30, 2023 and December 11, 2023.

The Museum has evaluated subsequent events through December 11, 2023, the date the financial statements were available to be issued.