



Financial Statements
June 30, 2024

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

Independent Auditor’s Report 1

Financial Statements

 Statement of Financial Position 3

 Statement of Activities..... 4

 Statement of Functional Expenses..... 5

 Statement of Cash Flows 7

 Notes to Financial Statements 8



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 statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended June 30, 2024, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Palm Springs Art Museum, Inc. as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for 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 for 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
February 7, 2025

Palm Springs Art Museum, Inc.
Statement of Financial Position
June 30, 2024

Assets	
Current Assets	
Cash	\$ 132,099
Promises to give, current portion, net	1,062,413
Employee Retention Credit receivable	349,158
Prepaid expenses and other current assets	261,820
Inventory	155,993
Total current assets	<u>1,961,483</u>
Noncurrent Assets	
Restricted cash equivalents - restricted for endowment	843,537
Promises to give, net	597,875
Beneficial interest in charitable trust held by others	664,175
Investments	22,973,900
Collections (Note 1 and Note 6)	-
Finance lease right-of-use assets	80,423
Property and equipment, net	13,394,687
Total noncurrent assets	<u>38,554,597</u>
Total assets	<u><u>\$ 40,516,080</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 454,665
Accrued expenses and other liabilities	371,080
Deferred revenue and refundable advance	94,680
Line of credit	2,375,000
Current maturities of finance lease liability	26,890
Total current liabilities	<u>3,322,315</u>
Noncurrent Liabilities	
Finance Lease Liability, less current maturities	56,927
Total liabilities	<u>3,379,242</u>
Net Assets	
Without donor restrictions	9,439,551
With donor restrictions	27,697,287
Total net assets	<u>37,136,838</u>
Total liabilities and net assets	<u><u>\$ 40,516,080</u></u>

Palm Springs Art Museum, Inc.

Statement of Activities
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and grants	\$ 3,088,796	\$ 2,609,573	\$ 5,698,369
Special events revenue	436,409	25,000	461,409
Admissions	1,540,841	-	1,540,841
Exchange portion of membership dues	196,424	-	196,424
Exhibits and programs	172,877	-	172,877
Museum store and event sales	735,244	-	735,244
Less costs of goods sold	(484,755)	-	(484,755)
Facility use fees	355,492	-	355,492
Net assets released from restrictions	5,651,778	(5,651,778)	-
Total revenue and support	<u>11,693,106</u>	<u>(3,017,205)</u>	<u>8,675,901</u>
Expenses			
Program services			
Exhibitions, curatorial, and collections	1,750,866	-	1,750,866
Museum operations and facilities	4,421,709	-	4,421,709
Marketing and public engagement	1,413,236	-	1,413,236
Total program services	<u>7,585,811</u>	<u>-</u>	<u>7,585,811</u>
Supporting services			
Fundraising and membership	1,181,822	-	1,181,822
Management and general	1,907,839	-	1,907,839
Total supporting services	<u>3,089,661</u>	<u>-</u>	<u>3,089,661</u>
Total expenses	<u>10,675,472</u>	<u>-</u>	<u>10,675,472</u>
Change in Net Assets Before Non-Operating Revenues and Expenses	<u>1,017,634</u>	<u>(3,017,205)</u>	<u>(1,999,571)</u>
Non-Operating Revenues and (Expenses)			
Net investment return	2,070	2,833,523	2,835,593
Collection purchases and maintenance	(1,140,166)	-	(1,140,166)
Proceeds from deaccessioned items	24,926	-	24,926
Change in value of beneficial interest in charitable trusts held by others	(64,708)	-	(64,708)
Total non-operating revenues and (expenses)	<u>(1,177,878)</u>	<u>2,833,523</u>	<u>1,655,645</u>
Change in Net Assets	(160,244)	(183,682)	(343,926)
Net Assets, Beginning of Year	9,599,795	27,880,969	37,480,764
Net Assets, End of Year	<u>\$ 9,439,551</u>	<u>\$ 27,697,287</u>	<u>\$ 37,136,838</u>

Palm Springs Art Museum, Inc.
Statement of Functional Expenses
Year Ended June 30, 2024

	Program Services			
	Exhibitions, Curatorial, and Collections	Museum Operations and Facilities	Marketing and Public Engagement	Total Program Services
Salaries and wages	\$ 740,950	\$ 2,239,146	\$ 651,386	\$ 3,631,482
Employee benefits	6,166	12,266	13,471	31,903
Payroll taxes	58,757	201,537	51,669	311,963
Professional services	370,023	95,804	403,624	869,451
Accounting fees	-	-	-	-
Legal fees	-	-	-	-
Advertising and promotion	-	-	15,561	15,561
Printing and copying	55,513	94	20,753	76,360
Postage and delivery	135,148	2,363	9,924	147,435
Office expenses	159,473	98,529	16,806	274,808
Information technology	9,054	40,652	1,735	51,441
Telecommunications	17,099	51,622	15,042	83,763
Exhibition materials and supplies	63,439	338	-	63,777
Equipment rental	8,621	53,577	7,068	69,266
Depreciation and amortization	-	622,045	-	622,045
Repairs and maintenance	600	261,873	-	262,473
Facilities security	-	20,644	-	20,644
Utilities	1,823	482,686	949	485,458
Costs of goods sold	-	484,755	-	484,755
Special events	-	-	-	-
Interest expense	-	-	-	-
Insurance	82,702	72,896	21,506	177,104
Travel	14,417	5,451	18,933	38,801
Conferences, meetings, and meals	5,233	30,625	147,191	183,049
Merchant and bank fees	972	72,148	1,630	74,750
Bad debt expense	-	-	-	-
Amortization expense	-	-	-	-
Other	20,876	57,413	15,988	94,277
	<u>1,750,866</u>	<u>4,906,464</u>	<u>1,413,236</u>	<u>8,070,566</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	-	(484,755)	-	(484,755)
	<u>-</u>	<u>(484,755)</u>	<u>-</u>	<u>(484,755)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 1,750,866</u>	<u>\$ 4,421,709</u>	<u>\$ 1,413,236</u>	<u>\$ 7,585,811</u>

Palm Springs Art Museum, Inc.
Statement of Functional Expenses
Year Ended June 30, 2024

	Fundraising and Membership	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	\$ 348,889	\$ 795,988	\$ 1,144,877	\$ 4,776,359
Employee benefits	8,508	432,427	440,935	472,838
Payroll taxes	24,263	55,846	80,109	392,072
Professional services	52,141	248,661	300,802	1,170,253
Accounting fees	-	25,800	25,800	25,800
Legal fees	-	13,829	13,829	13,829
Advertising and promotion	-	-	-	15,561
Printing and copying	31,832	-	31,832	108,192
Postage and delivery	28,981	6,955	35,936	183,371
Office expenses	5,919	20,666	26,585	301,393
Information technology	12,047	59,301	71,348	122,789
Telecommunications	8,061	19,283	27,344	111,107
Exhibition materials and supplies	-	-	-	63,777
Equipment rental	2,082	37,351	39,433	108,699
Depreciation	-	-	-	622,045
Repairs and maintenance	-	-	-	262,473
Facilities security	-	-	-	20,644
Utilities	-	-	-	485,458
Costs of goods sold	-	-	-	484,755
Special events	461,409	-	461,409	461,409
Interest expense	-	57,442	57,442	57,442
Insurance	11,525	28,479	40,004	217,108
Travel	6,696	14,288	20,984	59,785
Conferences, meetings, and meals	115,765	16,018	131,783	314,832
Merchant and bank fees	29,725	24,684	54,409	129,159
Bad debt expense	30,000	-	30,000	30,000
Amortization expense	-	25,014	25,014	25,014
Other	3,979	25,807	29,786	124,063
	<u>1,181,822</u>	<u>1,907,839</u>	<u>3,089,661</u>	<u>11,160,227</u>
Less expenses included with revenues on the statement of activities				
Costs of goods sold	-	-	-	(484,755)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,181,822</u>	<u>\$ 1,907,839</u>	<u>\$ 3,089,661</u>	<u>\$ 10,675,472</u>

Palm Springs Art Museum, Inc.
Statement of Cash Flows
Year Ended June 30, 2024

Operating Activities	
Change in net assets	\$ (343,926)
Adjustments to reconcile change in net assets to net cash used for operating activities	
Net realized/unrealized gain on investments	(2,835,593)
Depreciation and amortization	647,059
Bad debt expense	30,000
Change in value of beneficial interest in charitable trusts held by others	64,708
Proceeds from deaccessioning process	(24,926)
Collection purchases and maintenance	1,140,166
Changes in operating assets and liabilities	
Promises to give, net	(310,403)
Employee retention credit receivable	845,360
Prepaid expenses and other current assets	(117,149)
Inventory	105,622
Finance lease assets and liabilities	(23,249)
Accounts payable	229,439
Accrued expenses and other liabilities	26,426
Deferred revenue and refundable advance	(1,796)
Net Cash used for Operating Activities	<u>(568,262)</u>
Investing Activities	
Proceeds from sale of investments	26,626,548
Purchase of investments	(24,671,936)
Proceeds from deaccessioning process	24,926
Collection purchases and maintenance	(1,140,166)
Purchase of property and equipment	(2,373,389)
Net Cash used for Investing Activities	<u>(1,534,017)</u>
Financing Activities	
Proceeds from line of credit	3,925,000
Payments on line of credit	(1,550,000)
Net Cash from Financing Activities	<u>2,375,000</u>
Net Change in Cash and Restricted Cash Equivalents	272,721
Cash and Restricted Cash Equivalents, Beginning of Year	<u>756,847</u>
Cash and Restricted Cash Equivalents, End of Year	<u>\$ 1,029,568</u>
Cash	\$ 132,099
Restricted cash equivalents - restricted for endowment	<u>843,537</u>
	<u>\$ 975,636</u>
Supplemental Cash Flow Information	
Interest paid	<u>\$ 57,442</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 café 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 innovative Aluminaire House and his 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 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 with nearly 40% of our audience gaining access to the Museum for free, 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 of selected programming. 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, 2024, the Museum had approximately \$593,000 in excess of FDIC-insured limits.

Cash and Restricted 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 restricted cash equivalents. Cash equivalents are restricted to endowments that are perpetual in nature.

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, 2024, 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. At June 30, 2024, \$349,158 of this benefit is still receivable.

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 June 30, 2024.

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 June 30, 2024.

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 5.71%, 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 recognized as revenues 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, 2024, no amounts have been received in advance under federal and state contracts and grants.

Right-of-Use Leased Assets and Liabilities

Right-of-use leased assets and the related liabilities are recognized at the lease commencement date and represent the Museum's right-of-use an underlying asset and lease obligations for the lease term. Right-of-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right-of-use leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The amortization period varies among the leases.

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 contributions of such goods or services were received during the year ended June 30, 2024.

Advertising Costs

Advertising costs are expensed as incurred and were \$15,561 during the year ended June 30, 2024.

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 may 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.

Adoption of New Accounting Standard

As of July 1, 2023, the Museum adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments.

The Museum adopted ASU 2016-13 using the modified retrospective review method for all financial assets measured at amortized cost. The adoption of the new standard did not materially impact the Museum's Statement of Activities or Statement of Cash Flows.

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:

	2024
Cash	\$ 132,099
Employee Retention Credit receivable	349,158
	\$ 481,257

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, 2024:

	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)
Beneficial interests in				
Charitable trusts held by others	\$ 664,175	\$ -	\$ -	\$ 664,175
Endowment investments				
Exchange traded funds	22,919,968	22,919,968	-	-
	<u>\$ 23,584,143</u>	<u>\$ 22,919,968</u>	<u>\$ -</u>	<u>\$ 664,175</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 June 30, 2024:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)
	Beneficial Interests
	Charitable Trusts
Balance at June 30, 2023	\$ 728,883
Change in value of beneficial interests in charitable trusts held by others	<u>(64,708)</u>
Balance at June 30, 2024	<u>\$ 664,175</u>

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2024:

Within one year	\$ 1,062,413
In one to five years	<u>697,452</u>
	1,759,865
Less discount to net present value at rates of 5.71%	(87,577)
Less allowance for uncollectable promises to give	<u>(12,000)</u>
	<u>\$ 1,660,288</u>

At June 30, 2024, four donors accounted for 36% of total promises to give.

Note 5 - Property and Equipment

Property and equipment consist of the following as of June 30, 2024:

Buildings	\$ 21,923,740
Equipment	5,340,648
Furniture and fixtures	2,997,423
Land	1,798,000
Construction in progress	521,295
Site development	160,432
Vehicles	71,088
Intellectual property	5,700
	32,818,326
Less accumulated depreciation	(19,423,639)
	\$ 13,394,687

Note 6 - Collections

Collections consist of the following as of June 30, 2024:

Art	\$ 93,319,113
Anthropology	1,893,697
Reserve	3,468,105
Frey House II	525,552
Library, archives, and other items	8,502,578
Items held for deaccession	460,833
	\$ 108,169,878

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 June 30, 2024, deaccessioned works of art were sold, realizing \$24,926 in proceeds. Proceeds from the deaccessioning process, when realized, are designated for future acquisitions of items for the collections. Purchases of collections totaled \$1,140,166 during the year ended June 30, 2024.

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, 2024, a balance of \$544,403 remains to be reimbursed to the art acquisition account. During the year ended June 30, 2024, 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% (7.89% at June 30, 2024). Accrued interest and principal balance are due at maturity (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 \$2,375,000 as of June 30, 2024.

Note 8 - Revenue from Contracts with Customers

The beginning and ending balances for deferred revenue were as follows for the year ended June 30, 2024:

	2024	2023
Deferred revenue	\$ 94,680	\$ 96,476

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. 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 \$5,791 and \$25,014, respectively, for the year ended June 30, 2024. Short-term lease costs totaled \$26,223 for the year ended June 30, 2024. The weighted-average remaining lease term in years was 1.60 as of June 30, 2024. The weighted-average discount rate was 6.00% as of June 30, 2024.

The future minimum lease payments under noncancelable finance leases with terms greater than one year are listed below as of June 30, 2024:

	Finance
2025	\$ 26,890
2026	25,816
2027	24,682
2028	15,911
Total lease payments	93,299
Less interest	(9,482)
Present value of lease liabilities	\$ 83,817

Note 10 - Net Assets with Donor Restrictions

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

	2024
Subject to Expenditure for Specified Purpose	
Collection purchases and maintenance	\$ 7,822,096
Exhibits and programs	1,983,048
Education	76,275
General museum operations	3,732
	9,885,151
Subject to the Passage of Time	
Beneficial interest in charitable trust held by others	473,185
General museum operations	328,330
	801,515
Endowments	
Subject to appropriation and expenditure when a specified event occurs	
Restricted by donors for	
General museum operations	3,881,601
Collection purchases and maintenance	82
Exhibits and programs	359,049
Education	626,491
	4,867,223
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation	
General museum operations	12,143,398
Total endowments	17,010,621
Total net assets with donor restrictions	\$ 27,697,287

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 June 30, 2024:

Expiration of Time Restrictions	\$ 1,598,368
Satisfaction of Purpose Restrictions	
Collection purchases and maintenance	1,385,224
Exhibits and programs	2,457,679
Education	7,802
	5,449,073
Restricted-purpose spending-rate distributions and appropriations	
Education	5,881
Exhibits and programs	18,281
General museum operations	178,543
	202,705
	\$ 5,651,778

Note 11 - Endowment

The Museum's endowment ("the Endowment") consists of various individual 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, 2024, 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	\$ 12,143,398
Accumulated investment gains	4,867,223
	\$ 17,010,621

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 did not have any funds with deficient values as of June 30, 2024.

Investment Spending Policies

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 June 30, 2024 is as follows:

	With Donor Restrictions
Endowment net assets, beginning of period	\$ 14,100,175
Investment return, net	1,451,653
Appropriation of endowment assets pursuant to spending-rate policy	(952,666)
Reclassifications	2,411,459
	\$ 17,010,621

Note 12 - Related Party Transactions

During the year ended June 30, 2024, board members made contributions to the Museum for membership dues and special event sponsorships in the total of \$1,454,502.

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 year ended June 30, 2024, was \$87,693.

Note 14 - Subsequent Events

In July 2024, the Museum entered into a \$569,990 equipment security note with a bank. The note carries a fixed interest rate of 6.85%, is secured by the underlying equipment, calls for monthly payments of \$8,561, and terms in August 2031.

The Museum has evaluated subsequent events through February 7, 2025, the date the financial statements were available to be issued.