

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER

(A California Public Benefit Corporation)

* * *

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

June 30, 2011

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

June 30, 2011

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EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Museum of Art and History
at the McPherson Center
Santa Cruz, California

We have reviewed the accompanying statement of financial position of The Museum of Art and History at the McPherson Center (a California public benefit corporation) as of June 30, 2011, and the related statement of activities and changes in net assets, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information included in the accompanying Supplementary Information section is presented only for purposes of additional analysis and has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

As described in Note 8 on page 11 to the financial statements, The Museum of Art and History at the McPherson Center is party to a draft agreement with the County of Santa Cruz covering the office/retail building. No payments have been made since inception of the agreement. Management believes that settlement of the agreement will not have a material effect on the Museum's financial position. Nevertheless, it is at least reasonably possible that upon settlement of the agreement such an effect will occur, although the amount cannot be estimated.

Berger/Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
December 5, 2011

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2011

| ASSETS | | | | |
|---|--------------|---------------------------|---------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| CURRENT ASSETS: | | | | |
| Cash and Cash Equivalents | \$ 209,342 | \$ 31,696 | | \$ 241,038 |
| Accounts Receivable | 44,116 | | | 44,116 |
| Prepaid Expenses | 10,331 | | | 10,331 |
| Inventories | 46,615 | | | 46,615 |
| Total Current Assets | 310,404 | 31,696 | | 342,100 |
| PROPERTY, EQUIPMENT, AND IMPROVEMENTS, NET | 4,425,285 | | | 4,425,285 |
| OTHER ASSETS: | | | | |
| Investments | | 25,424 | \$ 233,071 | 258,495 |
| Funds Held by Community Foundation | 46,240 | | | 46,240 |
| Origination Fee, Net of Amortization | 19,809 | | | 19,809 |
| Lease Reserve | 176,000 | | | 176,000 |
| Total Other Assets | 242,049 | 25,424 | 233,071 | 500,544 |
| TOTAL ASSETS | \$ 4,977,738 | \$ 57,120 | \$ 233,071 | \$ 5,267,929 |

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(Continued)

June 30, 2011

LIABILITIES AND NET ASSETS

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| CURRENT LIABILITIES: | | | | |
| Current Portion - Capital Lease | \$ 95,000 | | | \$ 95,000 |
| Accrued Interest | 40,402 | | | 40,402 |
| Accounts Payable | 3,661 | | | 3,661 |
| Tenant Deposits | 15,500 | | | 15,500 |
| Accrued Personal Time Off | 19,512 | | | 19,512 |
| | <u>174,075</u> | | | <u>174,075</u> |
| Total Current Liabilities | | | | |
| | <u>174,075</u> | | | <u>174,075</u> |
| NON-CURRENT LIABILITIES: | | | | |
| Capital Lease Payable | 1,399,156 | | | 1,399,156 |
| | <u>1,399,156</u> | | | <u>1,399,156</u> |
| Total Non-Current Liabilities | | | | |
| | <u>1,399,156</u> | | | <u>1,399,156</u> |
| NET ASSETS: | | | | |
| Unrestricted: | | | | |
| Operating | 3,390,074 | | | 3,390,074 |
| Board Designated- Publications Fund | 14,433 | | | 14,433 |
| Total Unrestricted Net Assets | 3,404,507 | | | 3,404,507 |
| Temporarily Restricted | | \$ 57,120 | | 57,120 |
| Permanently Restricted | | | \$ 233,071 | 233,071 |
| | <u>3,404,507</u> | <u>57,120</u> | <u>233,071</u> | <u>3,694,698</u> |
| Total Net Assets | | | | |
| | <u>3,404,507</u> | <u>57,120</u> | <u>233,071</u> | <u>3,694,698</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,977,738</u> | <u>\$ 57,120</u> | <u>\$ 233,071</u> | <u>\$ 5,267,929</u> |

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|---------------------|
| REVENUE AND OTHER SUPPORT: | | | | |
| Contributions | \$ 50,877 | \$ 46,296 | | \$ 97,173 |
| In Kind Contributions | 8,377 | | | 8,377 |
| Grants | 39,550 | | | 39,550 |
| Fundraising Events, Net of Direct Costs | 92,834 | | | 92,834 |
| Special Appeals | 9,550 | | | 9,550 |
| Memberships | 94,047 | | | 94,047 |
| Rent and Assessments | 740,521 | | | 740,521 |
| Santa Cruz County Contract | 110,611 | | | 110,611 |
| Interest Income | 1,915 | | | 1,915 |
| Other Income | 444 | | | 444 |
| Museum Store Sales | 11,052 | | | 11,052 |
| Admissions | 13,639 | | | 13,639 |
| Program Service Fees | 13,655 | | | 13,655 |
| Facility Rental Income | 16,956 | | | 16,956 |
| Unrealized Gain on Investments | 15,530 | 25,424 | | 40,954 |
| Net Assets Released from Restrictions | 14,600 | (14,600) | | |
| Total Revenue and Other Support | <u>1,234,158</u> | <u>57,120</u> | | <u>1,291,278</u> |
| EXPENSES: | | | | |
| Program: | | | | |
| Museum | 426,179 | | | 426,179 |
| Expenses Related to Rents | 604,151 | | | 604,151 |
| Special Events | 15,559 | | | 15,559 |
| Supporting Services: | | | | |
| Management and General | 206,073 | | | 206,073 |
| Development | 186,875 | | | 186,875 |
| Loss in Market Value of Investment | | 26,734 | | 26,734 |
| Total Expenses | <u>1,438,837</u> | <u>26,734</u> | | <u>1,465,571</u> |
| CHANGE IN NET ASSETS | (204,679) | 30,386 | | (174,293) |
| NET ASSETS, Beginning of Year | <u>3,609,186</u> | <u>26,734</u> | <u>\$ 233,071</u> | <u>3,868,991</u> |
| NET ASSETS, End of Year | <u>\$ 3,404,507</u> | <u>\$ 57,120</u> | <u>\$ 233,071</u> | <u>\$ 3,694,698</u> |

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|--------------|
| Change in Net Assets | \$ (174,293) |
| Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization | 214,518 |
| Unrealized Loss on Investments | (40,954) |
| Change in Value of Split Interest Agreement | 26,734 |
| (Increase) Decrease in Operating Assets: | |
| Receivables | (38,147) |
| Grants Receivable | 20,000 |
| Other Assets | (10,331) |
| | 616 |
| Increase (Decrease) in Operating Liabilities: | |
| Accounts Payable | (4,420) |
| Accrued Personal Time Off | (8,983) |
| Accrued Sales Tax | 2,402 |
| Accrued Interest | 40,402 |
| Other Liabilities | 3,291 |
| Tenant Deposits | 4,000 |

| | |
|---|---------------|
| CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | <u>34,835</u> |
|---|---------------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|--|-----------------|
| Principal Payments on Capital Lease - Building | <u>(96,458)</u> |
|--|-----------------|

| | |
|---|-----------------|
| CASH FLOWS USED IN FINANCING ACTIVITIES | <u>(96,458)</u> |
|---|-----------------|

| | |
|---------------------------------------|----------|
| DECREASE IN CASH AND CASH EQUIVALENTS | (61,623) |
|---------------------------------------|----------|

| | |
|--|----------------|
| CASH AND CASH EQUIVALENTS, Beginning of Year | <u>302,661</u> |
|--|----------------|

| | |
|--|--------------------------|
| CASH AND CASH EQUIVALENTS, End of Year | <u><u>\$ 241,038</u></u> |
|--|--------------------------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | |
|---------------|-------------------------|
| Interest Paid | <u><u>\$ 99,154</u></u> |
|---------------|-------------------------|

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. GENERAL INFORMATION:

The Museum of Art and History at the McPherson Center is a California nonprofit public benefit corporation that operates under the direction of a board of trustees. The Museum's objectives and purposes include exploring diverse cultural ideas, issues and perspectives through artistic experience and regional history. Dedicated to excellence, the Museum provides accessible programs, exhibits, resources and services for exploration, education and research; collection and preservation of works of art and regional historic resources; and development and maintenance of public awareness and appreciation.

The Organization receives a substantial amount of support from donations from individuals and businesses located in Santa Cruz County, which is affected by the local economy. Additional sources of revenue include grants from foundations and a contract with the County of Santa Cruz.

The McPherson Center consists of two components: 1) Museum building, housing the exhibit and administrative offices of The Museum of Art and History, and 2) Office/Retail Building, containing approximately 23,873 square feet of office and retail space. The Museum has hired a professional management company, PACCOM, to manage the office and retail space.

The funding mix for the project consisted of the following:

Economic Development Administration of The United States - Economic Adjustment Assistance Award in the amount of \$1,920,000 and California Department of Commerce local match of \$640,000.

Capital lease from Santa Cruz County in the amount of \$2,255,000 at an annual interest rate of 7.1 percent.

Major Fundraising Campaign - The predecessors, the Art Museum of Santa Cruz County and the History Museum of Santa Cruz County, under their joint venture agreement, raised \$3,590,006 toward the project.

Significant subcommittees of the Board responsible for overseeing certain aspects of the Organization are: 1) Finance Management Committee, responsible for preparing annual budgets for Board approval and related tasks; 2) Center Management Committee, responsible for physical plan management and leasing and operation of the Office/Retail building; and 3) Development Committee, responsible for guiding Museum efforts for contribution and membership growth.

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The financial statements of the Organization are presented in accordance with Statement of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*). Under ASC 958 the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2011, the Organization had \$67,120 in temporarily restricted net assets and \$ 233,071 in permanently restricted net assets

Temporarily Restricted Funds - As provided by ASC 958, the Organization has classified donor-restricted assets as unrestricted assets in cases where the restrictions are met in the same period as when the resources are received.

Recognition of Donor Restricted Contributions - Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Accounts Receivable - Receivables consist of rent and related charges due from tenants. All receivables are expected to be collected.

Property and Equipment - All property and equipment are stated at cost. Major improvements are charged to the property accounts, while maintenance and repairs which do not extend the life for the respective assets are expensed currently. When property is retired or otherwise disposed of, the cost of the property and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation - Depreciation is computed by use of the straight-line method based on the estimated useful life of the respective assets.

Inventory - Inventory is comprised of books and goods for sale and is stated at the lower of cost or market determined by the first-in, first-out basis.

Collections - The Organization acquires its collections through purchase or by donation in-kind. No value has been assigned to the collections on the balance sheet in accordance with policies followed by art museums and only current year purchases, and not donations in-kind, are reflected in the Statement of Activities. The Organization acquires most of its archival collections through donations.

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Collections (Continued) - The value of archives acquired through donations is not susceptible to objective valuation and have not been reflected in the financial statements. The collection consists of books, ledgers, clothing, furniture, documents and photographs of items of historical interest.

Taxes on Income - The Organization is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

Donated Materials, Services and Facilities - Donated materials and professional services are recorded as contributions at their estimated values at date of receipt. Donated volunteer services have not been reflected in the financial statements since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donate significant amounts of their time in the Organization's program and supporting services, principally in membership development and in the display of exhibits.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Expenses Subject to Common Area Charges - Office/Retail Building - Certain expenses are reimbursable to the Museum by tenants under lease agreements entered into with the Museum of Art and History. The assessment is subject to an annual accounting and adjustment.

3. CAPITAL LEASE PAYABLE:

Capital lease payable at June 30, 2011, consisted of the following:

| | |
|--|--------------------|
| Santa Cruz County - Entered into on March 22, 1993, principal payable in annual escalating amounts, with interest of 7.1 percent per annum, payable in semi-annual amounts based on outstanding balance. | \$1,494,156 |
| Less: Current Portion | <u>(95,000)</u> |
| | <u>\$1,399,156</u> |

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

3. CAPITAL LEASE PAYABLE (Continued):

Minimum future lease payments are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> |
|-----------------------------|--------------------|
| 2012 | \$ 95,000 |
| 2013 | 100,000 |
| 2014 | 110,000 |
| 2015 | 115,000 |
| 2016 | 125,000 |
| Thereafter | <u>949,156</u> |
| | <u>\$1,494,156</u> |

During the fiscal years ended June 30, 2000 and 2001, the County of Santa Cruz deferred a portion of the payments due under the capital lease noted above, which totaled \$174,156. This balance is being treated as a 0% interest bearing loan, payment of which will become due at the end of the lease term in 2021 and is included in the long-term portion of capital lease balance. Interest expense on the lease for fiscal year ended June 30, 2011 was \$98,945.

4. SUPPORT:

The Organization received a substantial amount of its support from local government. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities.

5. SALES AND SUBSEQUENT REPURCHASE OF THE MUSEUM IMPROVEMENTS:

In March of 1993, to secure additional funds the Museum Venture sold the Museum Building and leasehold improvements to the County of Santa Cruz with the Museum Venture retaining the right to buy back the Museum Building and leasehold improvements for an amount equal to the debt service payments on the Series C Bonds totaling \$2,255,000 sold by the County to complete the funding of The Museum Venture Project. Terms of the capital lease are disclosed in Note 3. Due to bond requirements, recorded title to the building remains in the name of the County of Santa Cruz until the Series C Bonds are retired.

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

6. ORIGINATION FEES:

Origination fees attributable to the Santa Cruz County note have been capitalized as part of the capital lease agreement (see Note 3). They are being amortized over the 315-month life of the lease which corresponds to the loan held by the County on the old jail building.

| | |
|--------------------------|------------------|
| Original Loan Fee | \$ 65,000 |
| Accumulated Amortization | <u>(45,191)</u> |
| Loan Fee, Net | <u>\$ 19,809</u> |

7. LEASE RESERVE:

As part of the funding of the Santa Cruz County Capital Lease, \$176,000 was set up as a Lease Reserve as part of the capital lease agreement (see Note 3). The interest earned on that reserve reduces the interest paid on the Santa Cruz County Lease on an annual basis.

8. LEASE AGREEMENT/CONTINGENCY:

A draft lease agreement with the County of Santa Cruz covering the Office/Retail Building, which specifies that a percent of net rent be paid to the County, is under negotiation. The amount of any liability to the County is undetermined at this time.

9. MAJOR TENANT:

As of June 30, 2011, rent from two tenants in the Office/Retail Building represented the majority of gross base rent. Gross base rent from tenants is as follows:

| | Average Monthly Base Rent | Percent of Gross Base Rent |
|-----------------------|---------------------------------|-------------------------------|
| Tenant A | \$ 21,286 | 38% |
| Tenant B | 17,302 | 31% |
| Various Other Tenants | <u>17,157</u> | <u>31%</u> |
| | <u>\$ 55,745</u> | <u>100%</u> |

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

10. PROPERTY, EQUIPMENT, AND IMPROVEMENTS:

Property, equipment, and improvements consisted of the following at June 30, 2011:

| | |
|--------------------------------|---------------------|
| Office Furniture and Equipment | \$ 58,235 |
| Museum Furnishings | 13,705 |
| Museum Store | 68,625 |
| Leasehold Improvements | 212,712 |
| Museum Building | 3,650,503 |
| Equipment | 23,386 |
| Jail/Office Building | <u>4,167,573</u> |
| | 8,194,739 |
| Less: Accumulated Depreciation | <u>(3,769,454)</u> |
| | <u>\$ 4,425,285</u> |

Depreciation and amortization expense was \$214,518 for the year ended June 30, 2011.

11. CASH AND EQUIVALENTS:

For purposes of reporting cash flows, the Organization considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of 90 days to be cash or cash equivalents. At June 30, 2011, cash and cash equivalents were as follows:

| | |
|--------------|-------------------|
| Cash in bank | <u>\$ 241,038</u> |
|--------------|-------------------|

12. CONCENTRATION OF CREDIT RISK:

The Organization maintains their cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At June 30, 2011, the Organization did not exceed the insured limit.

The Organization is mainly dependent on membership revenue, donations and contributions from the community for its operations. Due to the current economic downturn there has been an overall reduction in the amount of revenue from these sources when compared to the prior year. However, fundraising activity for the last two months of the fiscal year and subsequent months to date has been dramatically successful. In fiscal year ending June 30, 2012 the Organization has so far raised over \$200,000 in revenue and implemented several successful community based programs. Management expects this positive trend to continue.

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
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NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

13. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods:

| | |
|---|------------------|
| Anonymous Donor – History Gallery Upgrade | \$ 29,696 |
| Unrealized gain on investments | 25,424 |
| Ann Rando – Jews of Santa Cruz Project | <u>2,000</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 57,120</u> |

14. INVESTMENT IN SPLIT-INTEREST AGREEMENTS:

The Museum has a remainder interest in a charitable remainder annuity trust for which it is not acting as trustee. The trust was originally created in June 1997. The present value of the estimated proceeds is computed using Internal Revenue Service actuarial tables which take into account required annuity distributions to the donor (8%) as well as return on investment over the years. The present value is shown on the Statement of Financial Position as “Contributions Receivable – Split-Interest Agreements” in the period in which all relevant information is received. At the end of each year, the trust is revalued and the change recorded as a gain or loss in the Statement of Activities. The fair market value of the Harding Charitable Remainder Annuity Trust assets at June 30, 2011, was negligible at \$3,627 and therefore the investment was written down to zero value.

15. COLLECTIONS:

The Organization’s collections are made up of artifacts of historical significance; and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

16. EMPLOYEE BENEFIT PLANS:

During the year ended June 30, 2001, the Museum entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Museum. The Museum has discretion to vary the contribution rate from year to year. For the year ended June 30, 2011, the Museum contributed 0% of gross salaries for qualified employees to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code, if they wish.

THE MUSEUM OF ART AND HISTORY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

17. INVESTMENTS:

Investments are presented in the financial statements at fair market value in accordance with ASC 958. As of June 30, 2011 investments consisted of:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation (Depreciation)</u> |
|-------------------------------|-------------------|-------------------|---|
| Mutual Funds | \$ 294,477 | \$ 258,495 | \$ (35,982) |
| Assets Held at Community Fdn. | <u>40,513</u> | <u>46,240</u> | <u>5,727</u> |
| | <u>\$ 334,990</u> | <u>\$ 304,735</u> | <u>\$ (30,255)</u> |

Investment return is summarized as follows:

| | |
|--------------------------------|------------------|
| Dividend and Interest Income | \$ 1,915 |
| Net Realized & Unrealized Gain | <u>40,954</u> |
| | <u>\$ 42,869</u> |

18. FAIR VALUE MEASUREMENTS:

The Organization follows the provisions of ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*). ACS 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

In accordance with ASC 820, the Organization applied the following fair value hierarchy:

Level 1 - Assets and liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or future contracts.

Level 2 - Assets and liabilities valued based on observable market data for similar instruments.

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

18. FAIR VALUE MEASUREMENTS (Continued):

Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on best available data some of which is internally developed, and considers risk premiums that a market participant would require.

The following is a description of calculation methodologies used for assets and liabilities recorded at fair value and the basis for estimating fair value. These are reflected as recurring or non-recurring in compliance with required disclosures.

Assets:

Cash and Cash Equivalents - Cash equivalents include money market and investment accounts that hold excess liquid funds. The fair value measurement of these assets are based on quoted market prices in active markets, and therefore are recorded at fair value on a recurring basis and are classified as Level 1 assets.

Investments and Split Interest Contributions Receivable - Investments and amounts in Split Interest Receivable represent fair market value and present values respectively of amounts invested in publicly traded securities and instruments. The fair value measurement of investment assets are based on quoted market prices in active markets, and therefore, are recorded at fair value on a recurring basis and are classified as Level 1 assets. The value of the Split Interest Contribution Receivable is recorded at fair market value and adjusted for present value of estimated proceeds.

The following table presents the Organization's fair value hierarchy for those assets measured at fair value as of June 30, 2011:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-----------------------------------|-------------------|----------------|----------------|----------------|
| Investment Held By Community Fdn. | \$ 46,240 | | \$46,240 | |
| Investment held at Fidelity | 115,213 | \$115,213 | | |
| Investment held at TD Ameritrade | 143,282 | 143,282 | | |

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

19. SUBSEQUENT EVENTS:

The Organization's management has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2011. Subsequent events have been evaluated through December 5, 2011, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after December 5, 2011.

20. INCOME TAXES:

The Organization is a tax-exempt corporation under Internal Revenue Code Section 501(c)(3) and California state franchise tax under Section 23701(d) of the Revenue and Taxation Code. Therefore, no provisions for income taxes have been recorded on the financials.

The Organization follows ASC 740-10 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48)). ASC 740-10 clarifies accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement for tax positions taken or expected to be taken in a tax return. No amounts have been recorded in the financial statements under ASC 740-10. The Organization is current in all Federal and State tax filing obligations and the returns are subject to standard statute of limitations applicable under the governing Federal and State tax statutes.

21. ENDOWMENT FUND:

The Organization's endowment consists of funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

THE MUSEUM OF ART AND HISTORY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

21. ENDOWMENT FUND (Continued):

Interpretation of Relevant Law - The Board of Directors of the Organization has interpreted the California version of the Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) The original value of gifts donated to the permanent endowment, (b) The original value of subsequent gifts to the permanent endowment, and (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the donor-restricted endowment funds.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) The other resources of the Organization.
- (7) The investment policies of the Organization.

Funds with Deficiencies - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets totaled (\$0) as of June 30, 2011.

Investment Return Objectives, Risk Parameters and Strategies - The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets. The investment policy seeks to maintain fund principal and provide a reasonable rate of return. Safety of principal and preservation of capital is based on prudent investment principles. While short-term stability is desirable, achieving superior long-term returns takes precedence as an investment objective.

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AT THE MCPHERSON CENTER
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NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

21. ENDOWMENT FUND (Continued):

Spending Policy - The Organization has a policy of classifying investment income on endowment funds as temporarily restricted, unless otherwise specified by the donor. However as the Organization is actively working to increase the total endowment, investment income has remained as temporarily restricted. Along with working to increase endowed funds, the Organization is also working on revising and fully developing its investment and spending policies.

Endowment net asset composition by type of fund as of June 30, 2011 consisted of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor Restricted Endowment Funds | <u>\$ -</u> | <u>\$ 25,424</u> | <u>\$ 233,071</u> | <u>\$ 258,495</u> |

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment Net Assets, Beginning of Year | \$ (15,530) | | \$ 233,071 | \$ 217,541 |
| Contributions | | | | |
| Investment Gain | <u>15,530</u> | <u>\$ 25,424</u> | <u>-</u> | <u>40,954</u> |
| Endowment Net Assets, End of Year | <u>\$ 0</u> | <u>\$ 25,424</u> | <u>\$ 233,071</u> | <u>\$ 258,495</u> |

SUPPLEMENTARY INFORMATION

THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION -
UNRESTRICTED FUNDS

June 30, 2011

| | ASSETS | | | |
|--|------------|-----------------------------|---------------------|--------------|
| | Museum | Supporting Organizations | McPherson Center | Total |
| CURRENT ASSETS: | | | | |
| Cash and Cash Equivalents | \$ 57,688 | \$ 15,098 | \$ 136,556 | \$ 209,342 |
| Accounts Receivable (Net of Allowance) | | | 44,116 | 44,116 |
| Prepaid Expenses | 310 | | 10,021 | 10,331 |
| Inventories | 46,615 | | | 46,615 |
| Total Current Assets | 104,613 | 15,098 | 190,693 | 310,404 |
| PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET | 155,902 | | 4,269,383 | 4,425,285 |
| OTHER ASSETS: | | | | |
| Funds Held by Community Foundation | 46,240 | | | 46,240 |
| Origination Fee, Net of Amortization | | | 19,809 | 19,809 |
| Lease Reserve | | | 176,000 | 176,000 |
| Total Other Assets | 46,240 | | 195,809 | 242,049 |
| TOTAL ASSETS | \$ 306,755 | \$ 15,098 | \$ 4,655,885 | \$ 4,977,738 |

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THE MUSEUM OF ART AND HISTORY
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STATEMENT OF FINANCIAL POSITION -
UNRESTRICTED FUNDS
(Continued)

June 30, 2011

LIABILITIES AND NET ASSETS

| | <u>Museum</u> | <u>Supporting Organizations</u> | <u>McPherson Center</u> | <u>Total</u> |
|-------------------------------------|-------------------|-------------------------------------|-----------------------------|---------------------|
| CURRENT LIABILITIES: | | | | |
| Current Portion Capital Lease | | | \$ 95,000 | \$ 95,000 |
| Accrued Interest | | | 40,402 | 40,402 |
| Accounts Payable | \$ 595 | | 3,066 | 3,661 |
| Tenant Deposits | | | 15,500 | 15,500 |
| Accrued Personal Time Off | 19,512 | | | 19,512 |
| Total Current Liabilities | 20,107 | | 153,968 | 174,075 |
| NON-CURRENT LIABILITIES: | | | | |
| Capital Lease Payable | | | 1,399,156 | 1,399,156 |
| Total Non-Current Liabilities | | | 1,399,156 | 1,399,156 |
| NET ASSETS, UNRESTRICTED | 286,648 | \$ 15,098 | 3,102,761 | 3,404,507 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 306,755</u> | <u>\$ 15,098</u> | <u>\$ 4,655,885</u> | <u>\$ 4,977,738</u> |

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THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS -
UNRESTRICTED FUNDS

For the Year Ended June 30, 2011

| | <u>Museum</u> | <u>Supporting Organizations</u> | <u>McPherson Center</u> | <u>Total</u> |
|--|---------------|-------------------------------------|-----------------------------|---------------|
| REVENUE AND OTHER SUPPORT: | | | | |
| Contributions | \$ 50,877 | | | \$ 50,877 |
| In-Kind Contributions | 8,377 | | | 8,377 |
| Grants | 39,550 | | | 39,550 |
| Special Events Fundraising | 63,542 | \$ 29,292 | | 92,834 |
| Special Appeals | 9,550 | | | 9,550 |
| Memberships | 82,152 | 11,895 | | 94,047 |
| Rent and Assessments | | | \$ 740,521 | 740,521 |
| Santa Cruz County Contract | 110,611 | | | 110,611 |
| Interest Income | 1,809 | 3 | 103 | 1,915 |
| Other Income | 444 | | | 444 |
| Museum Store Sales | 11,052 | | | 11,052 |
| Admissions | 13,639 | | | 13,639 |
| Program Service Fees | 13,655 | | | 13,655 |
| Facility Rental Income | 16,956 | | | 16,956 |
| Unrealized Gains | 15,530 | | | 15,530 |
| Net Assets Released from Restrictions | 14,600 | | | 14,600 |
| TOTAL REVENUE AND OTHER SUPPORT | 452,344 | 41,190 | 740,624 | 1,234,158 |

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THE MUSEUM OF ART AND HISTORY
AT MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS -
UNRESTRICTED FUNDS
(Continued)

For the Year Ended June 30, 2011

| | <u>Museum</u> | <u>Supporting Organizations</u> | <u>McPherson Center</u> | <u>Total</u> |
|--------------------------------|-------------------|-------------------------------------|-----------------------------|---------------------|
| EXPENSES: | | | | |
| Program: | | | | |
| Museum | \$ 398,679 | \$ 27,500 | | \$ 426,179 |
| Expenses Related to Operations | | | \$ 604,151 | 604,151 |
| Special Events | | 15,559 | | 15,559 |
| Supporting Services: | | | | |
| Management and General | 205,023 | 1,050 | | 206,073 |
| Development | 186,875 | | | 186,875 |
| Total Expenses | 790,577 | 44,109 | 604,151 | 1,438,837 |
| OPERATING TRANSFERS IN (OUT) | 241,000 | | (241,000) | - |
| CHANGE IN NET ASSETS | (97,233) | (2,919) | (104,527) | (204,679) |
| NET ASSETS, BEGINNING OF YEAR | 383,881 | 18,017 | 3,207,288 | 3,609,186 |
| NET ASSETS, END OF YEAR | <u>\$ 286,648</u> | <u>\$ 15,098</u> | <u>\$ 3,102,761</u> | <u>\$ 3,404,507</u> |

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THE MUSEUM OF ART AND HISTORY
AT MCPHERSON CENTER
(A California Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

| | Program Service | Management & General | Development | Total |
|---------------------------------------|--------------------|-------------------------|-------------|------------|
| EXPENSES: | | | | |
| 5100 Salary/Wages | \$ 166,138 | \$ 135,681 | \$ 120,770 | \$ 422,589 |
| 5101 Payroll Service | | 795 | | 795 |
| 5102 Temporary Employee Expense | | 7,661 | | 7,661 |
| 5105 Benefits | 24,612 | 17,194 | 14,376 | 56,182 |
| 5110 Payroll Taxes | 13,360 | 10,526 | 10,906 | 34,792 |
| 5115 Auto/Mileage | 83 | | | 83 |
| 5125 Printing | 2,133 | 7,319 | 7,028 | 16,480 |
| 5126 Stationery | | 1,048 | | 1,048 |
| 5131 Major Donors | | 311 | 259 | 570 |
| 5135 Dues | 189 | 288 | | 477 |
| 5143 Staff | | 72 | | 72 |
| 5145 Equipment Lease | 3,372 | 1,506 | 1,144 | 6,022 |
| 5155 Postage | 1,715 | 343 | 1,372 | 3,430 |
| 5157 Bulk Mail Postage | 1,071 | 214 | 857 | 2,142 |
| 5165 Supplies | 3,153 | 1,408 | 1,070 | 5,631 |
| 5170 Taxes & Licenses | | 1,889 | | 1,889 |
| 5175 Telephone | 4,837 | 2,160 | 1,641 | 8,638 |
| 5185 Volunteer Expense | 1,383 | | | 1,383 |
| 5190 Audit fee | | 1,500 | | 1,500 |
| 5191 Maintenance | 323 | 144 | 110 | 577 |
| 5200 Computer Expense | 1,501 | 670 | 510 | 2,681 |
| 5205 Bank Service Charges | 12 | 1,615 | | 1,627 |
| 5210 Other Professional Service | | 3,489 | 5,538 | 9,027 |
| 5212 Professional Services - Mailings | | 8 | 1,945 | 1,953 |
| 5215 Graphics | 1,189 | | 1,189 | 2,378 |
| 5230 Member Receptions Expense | 2,567 | 24 | 3,009 | 5,600 |
| 5232 Special Receptions | 8,377 | | | 8,377 |
| 5256 Curatorial Fees | 500 | | | 500 |
| 5257 Crating and Materials | 212 | | | 212 |
| 5260 Installation Exhibition | 21,390 | | | 21,390 |
| 5265 Permanent Collection Expense | 340 | | | 340 |
| 5270 Exhibition Shipping | 328 | | | 328 |
| 5280 Exhibit Insurance Expense | 1,028 | | | 1,028 |

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THE MUSEUM OF ART AND HISTORY
AT MCPHERSON CENTER
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STATEMENT OF FUNCTIONAL EXPENSES
(Continued)

For the Year Ended June 30, 2011

| | Program Service | Management & General | Development | Total |
|------------------------------------|--------------------|-------------------------|-------------------|-------------------|
| EXPENSES: | | | | |
| 5301 Family and Kids Programs | \$ 8,393 | \$ 75 | | \$ 8,468 |
| 5306 Public Programs Expense | 11,115 | | | 11,115 |
| 5310 Gallery Activities | 2,101 | | | 2,101 |
| 5311 School Programs | 1,807 | | | 1,807 |
| 5315 Trunks Expense | 573 | | | 573 |
| 5319 Hawley Classroom | 136 | 45 | | 181 |
| 5320 Evergreen Programs | 3,605 | | | 3,605 |
| 5321 Docent Education | 917 | | | 917 |
| 5360 Promotion | 6,117 | | \$ 6,116 | 12,233 |
| 5346 Sculpture Garden Expenses | 39 | | | 39 |
| 5370 Interest | 209 | | | 209 |
| 5380 Fire/Security | 2,155 | 269 | 269 | 2,693 |
| 5385 Insurance | 7,190 | 899 | 899 | 8,988 |
| 5390 Janitorial/Landscaping | 8,508 | 1,064 | 1,064 | 10,636 |
| 5400 PG&E | 25,748 | 3,218 | 3,218 | 32,184 |
| 5405 Parking Deficiency Fund | 7,819 | 978 | 978 | 9,775 |
| 5410 Repair/Replacement | 13,036 | 1,629 | 1,629 | 16,294 |
| 5415 Utility - Other | 3,028 | 379 | 378 | 3,785 |
| 5420 Depreciation Expense | 15,422 | | | 15,422 |
| 5430 Collections Expense | 93 | 402 | | 495 |
| 5589 Theft Loss | 266 | 200 | 600 | 1,066 |
| 5590 Other Expense | 20,589 | | | 20,589 |
| | <u>\$ 398,679</u> | <u>\$ 205,023</u> | <u>\$ 186,875</u> | <u>\$ 790,577</u> |
| Depreciation and Amortization | \$ 199,096 | | | \$ 199,096 |
| McPherson Center Operating Expense | 405,055 | | | 405,055 |
| | <u>\$ 604,151</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 604,151</u> |

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