

The Museum of Art and History
At the McPherson Center
(a California Public Benefit Corporation)

Financial Statements and
Supplementary Information

June 30, 2015

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3 - 4
Statement of Activities and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 19
Supplementary Information	
Schedule of Financial Position - Unrestricted Funds	20 - 21
Schedule of Activities and Changes in Net Assets - Unrestricted Funds	22 - 23
Schedule of Functional Expenses	24 - 25

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The Museum of Art and History at the McPherson Center (a California public benefit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Museum of Art and History at the McPherson Center as of June 30, 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of unrestricted funds financial position and activities and changes in net assets, and of functional expenses on pages 20 - 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Armanino^{LLP}
Santa Cruz, California

February 12, 2016

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Statement of Financial Position
June 30, 2015

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 906,541	\$ 1,336,198	\$ -	\$ 2,242,739
Accounts receivable	1,153	243,200	-	244,353
Prepaid expenses	20,286	-	-	20,286
Inventories	41,100	-	-	41,100
	<u>969,080</u>	<u>1,579,398</u>	<u>-</u>	<u>2,548,478</u>
Total current assets				
Property, equipment, and improvements, net	<u>4,280,372</u>	<u>-</u>	<u>-</u>	<u>4,280,372</u>
Other assets				
Investments	-	73,291	233,071	306,362
Funds Held by Community Foundation	51,666	-	-	51,666
Origination fee, net of amortization	9,906	-	-	9,906
Lease reserve	176,000	-	-	176,000
	<u>237,572</u>	<u>73,291</u>	<u>233,071</u>	<u>543,934</u>
Total other assets				
Total assets	<u>\$ 5,487,024</u>	<u>\$ 1,652,689</u>	<u>\$ 233,071</u>	<u>\$ 7,372,784</u>

The accompanying notes are an integral part of these financial statements

THE MUSEUM ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
June 30, 2015

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current liabilities				
Current portion - capital lease	\$ 125,000	\$ -	\$ -	\$ 125,000
Accrued interest	25,492	-	-	25,492
Accounts payable	29,675	-	-	29,675
Tenant deposits	20,420	-	-	20,420
Accrued personal time off	29,725	-	-	29,725
	<u>230,312</u>	<u>-</u>	<u>-</u>	<u>230,312</u>
Total current liabilities				
	<u>230,312</u>	<u>-</u>	<u>-</u>	<u>230,312</u>
Non-current liabilities				
Capital lease payable	949,156	-	-	949,156
	<u>949,156</u>	<u>-</u>	<u>-</u>	<u>949,156</u>
Total non-current liabilities				
	<u>949,156</u>	<u>-</u>	<u>-</u>	<u>949,156</u>
Net assets				
Unrestricted				
Operating	4,116,210	-	-	4,116,210
Board designated - operating reserve	125,000	-	-	125,000
Board designated - facility reserve	40,000	-	-	40,000
Board designated publications fund	26,346	-	-	26,346
Total unrestricted net assets	4,307,556	-	-	4,307,556
Temporarily restricted	-	1,652,689	-	1,652,689
Permanently restricted	-	-	233,071	233,071
	<u>-</u>	<u>-</u>	<u>233,071</u>	<u>233,071</u>
Total net assets	4,307,556	1,652,689	233,071	6,193,316
	<u>4,307,556</u>	<u>1,652,689</u>	<u>233,071</u>	<u>6,193,316</u>
Total liabilities and net assets	\$ 5,487,024	\$ 1,652,689	\$ 233,071	\$ 7,372,784
	<u>\$ 5,487,024</u>	<u>\$ 1,652,689</u>	<u>\$ 233,071</u>	<u>\$ 7,372,784</u>

The accompanying notes are an integral part of these 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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Contributions	\$ 122,603	\$ 721,600	\$ -	\$ 844,203
Grants	37,653	621,000	-	658,653
Special events fundraising, net of direct costs	101,326	-	-	101,326
Special appeals	4,677	-	-	4,677
Memberships	129,265	-	-	129,265
Santa Cruz County contract	117,094	-	-	117,094
Interest income	5,122	6,736	-	11,858
Museum store sales	5,434	-	-	5,434
Admissions	17,456	-	-	17,456
Program service fees	67,569	-	-	67,569
Facility rental income	51,082	-	-	51,082
Unrealized gains and losses on investments	1,099	(2,417)	-	(1,318)
Net assets released from restrictions	739,638	(739,638)	-	-
Total revenue and other support	<u>1,400,018</u>	<u>607,281</u>	<u>-</u>	<u>2,007,299</u>
Other gains				
Rents McPherson Center	698,539	-	-	698,539
Interest income McPherson Center accounts	34	-	-	34
Expenses related to rents	(416,720)	-	-	(416,720)
Total other gains	<u>281,853</u>	<u>-</u>	<u>-</u>	<u>281,853</u>
Expenses				
Program				
Museum	1,243,850	-	-	1,243,850
Support organizations	30,012	-	-	30,012
Supporting services				
Management and general	94,038	-	-	94,038
Development	122,333	-	-	122,333
Total expenses	<u>1,490,233</u>	<u>-</u>	<u>-</u>	<u>1,490,233</u>
Change in net assets	191,638	607,281	-	798,919
Net assets, beginning of year	<u>4,115,918</u>	<u>1,045,408</u>	<u>233,071</u>	<u>5,394,397</u>
Net assets, end of year	<u>\$ 4,307,556</u>	<u>\$ 1,652,689</u>	<u>\$ 233,071</u>	<u>\$ 6,193,316</u>

The accompanying notes are an integral part of these financial statements.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
For the Year Ended June 30, 2015

Cash flows from operating activities	
Change in net assets	\$ 798,919
Adjustments to reconcile decrease in net assets to net cash	
Provided by operating activities	
Depreciation and amortization	250,726
Unrealized gain on investments	(2,964)
Change in assets and liabilities	
Receivables	263,209
Other assets	(5,548)
Inventory	17,927
Accounts payable	8,275
Accrued personal time off	401
Accrued interest	(4,083)
Deposits	(2,155)
Cash flows provided by operating activities	<u>1,324,707</u>
Cash flows from financing activities	
Purchase of fixed assets	(361,006)
Principal payments on capital lease - building	<u>(115,000)</u>
Cash flows used in financing activities	<u>(476,006)</u>
Increase in cash and cash equivalents	848,701
Cash and cash equivalents, beginning of year	<u>1,394,038</u>
Cash and cash equivalents, end of year	<u>\$ 2,242,739</u>
<u>Supplemental disclosure of cash flow information</u>	
Interest paid	<u>\$ 55,067</u>

The accompanying notes are an integral part of these financial statements.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

1. General Information

The Museum of Art and History at the McPherson Center ("MAH") 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.

Included in the financial statements is the activity for the two supporting organizations, the Art Forum and History Forum. The income from these organizations provide additional sources of funding for the museum.

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
June 30, 2015

2. Summary of Significant Accounting Policies

Basis of accounting

The Organization follows standards of accounting and financial reporting prescribed for nonprofit organizations that include reporting on the accrual basis of accounting. Contributions are recognized when the donor makes a pledge to give that is in substance an unconditional promise.

Contributions

Contributions are accounted by the Organization in its financial position and operating activities in the following three classes of net assets:

- Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board of Directors for specific purposes.
- Temporarily restricted net assets include those assets that are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting period. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets include those assets that are subject to a permanent donor restriction and for which only investment income earned by the funds can be used by the Organization.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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.

Cash and cash 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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Accounts receivable

Receivables consist of grants and contributions receivable related to the Organization's programs and rent and related charges due from tenants. All receivables are expected to be collected.

Investments

The Organization's investments are valued in accordance with generally accepted accounting principles in the United States, including Fair Value Measurements. As of June 30, 2015, the accounts treated as an investment are (1) Endowment Fund held in various ETF funds and (2) A fund held under a contract with the Community Foundation of Santa Cruz County. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur.

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 currently 5-7 years for office furniture and equipment and 15-40 years for building and building improvements.

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 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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Taxes on income

The Organization has received notification from the Internal Revenue Service and the state of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301(d) of the California Revenue and Taxation Code. The Organization's federal returns for the tax years 2012 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California returns for the tax years 2011 and beyond remain subject to examination by the Franchise Tax Board.

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained, and changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Organization has evaluated its current tax positions and has concluded that as of June 30, 2015 the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

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.

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. Concentration of Credit and Market Risk for Cash and Cash Equivalents and Investments

The Organization maintains their cash and cash equivalents in bank deposit accounts at various financial institutions. The balances at times may exceed federally insured limits. At June 30, 2015, the Organization had \$1,179,064 in bank deposits in excess of the \$250,000 FDIC limits.

The Organization holds investment funds in various brokerage accounts with investments in mutual funds subject to market risk.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

4. Concentration of Risk

The Organization is mainly dependent on membership revenue, donations and contributions from the community, grants from private foundations, and net rent revenue from its Office/Retail Building for its operations. The Organization receives 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. The Organization's rent income is concentrated in two major tenants as disclosed in Note 9.

5. Origination Fees

Origination fees attributable to the Santa Cruz County capital lease note have been capitalized as part of the capital lease agreement (see Note 8). 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>(55,094)</u>
Loan fee, net	<u>\$ 9,906</u>

6. 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 8). The interest earned on that reserve reduces the interest paid on the Santa Cruz County Lease on an annual basis.

7. 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 8. 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
June 30, 2015

8. Capital Lease Payable

Capital lease payable at June 30, 2015, 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.	\$1,074,156
Less: current portion	<u>(125,000)</u>
	<u>\$ 949,156</u>

Minimum future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2016	\$ 125,000
2017	135,000
2018	145,000
2019	155,000
2020	165,000
Thereafter	<u>349,156</u>
	<u>\$1,074,156</u>

Interest expense on the lease for fiscal year ended June 30, 2015 was \$50,984.

Subsequent to the final payment due on the capital lease agreement, the Organization will be required to make lease payments to the County of Santa Cruz as described in Note 15.

9. Major Tenant

As of June 30, 2015, rent from two tenants in the office/retail building represented the majority of gross base rent. Gross base rent from tenants is as follows:

	<u>Average Monthly Base Rent</u>	<u>Percent of Gross Base Rent</u>
Tenant A	\$19,935	43%
Tenant B	13,871	30%
Various other tenants	<u>18,238</u>	<u>27%</u>
	<u>\$52,044</u>	<u>100%</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

10. Property, Equipment, and Improvements

Details of property equipment and Improvements as of June 30, 2015, and related depreciation expense for the year then ended were as follows:

	<u>Museum</u>	<u>McPherson Center</u>	<u>Total</u>
Office furniture and equipment	\$ 44,670	\$ 6,535	\$ 51,205
Equipment	122,134	68,682	190,816
Museum store	68,625		68,625
Leasehold improvements	225,155	136,888	362,043
Evergreen cemetery	71,795		71,795
Construction in progress	379,779		379,779
Museum building	3,655,269		3,655,269
McPherson Center Building		4,175,389	4,175,389
	4,567,427	4,387,494	8,954,921
Less: accumulated depreciation	(2,311,625)	(2,362,924)	(4,674,549)
	<u>\$2,255,802</u>	<u>\$2,024,570</u>	<u>\$4,280,372</u>

Depreciation expense for the year ended June 30, 2015 consisted of \$132,113 included in expenses related to rents, and \$120,618 included in expenses.

11. Temporarily Restricted Net Assets

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

History Gallery upgrade	\$ 66,051
Unrealized gain on investments	73,291
Other temporarily restricted funds	89,350
New CA Art Funds	198,090
Renewed ambition - Abbott Square	1,179,200
Renewed ambition - Campaign program and other	46,707
Total temporarily restricted net assets	<u>\$ 1,652,689</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

12. 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, 2015, 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.

13. Fair Value Measurements

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification.

Fair value hierarchy

These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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.

This hierarchy consists of three broad levels:

- 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.
- 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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

13. Fair Value Measurements (continued)

Assets

Investments (Endowment Fund) - Represents assets invested in a mix of funds in a brokerage account.

Funds held at Community Foundation of Santa Cruz County - Represents assets held by the Community Foundation in an investment pool (Long Term Portfolio).

The following table presents the Organization's fair value hierarchy for those assets measured at fair value as of June 30, 2015:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment fund - exchange				
traded funds	\$ 299,368	\$ 299,368	-	-
Endowment fund - money market fund	6,994	6,994	-	-
Investment held by Community Foundation	51,666	51,666	-	-

14. 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 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 AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

14. 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, 2015.

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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

14. 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, 2015, 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>\$ 73,291</u>	<u>\$ 233,071</u>	<u>\$ 306,362</u>

Changes in endowment net assets for the fiscal year ended June 30, 2014, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 68,972	\$ 233,071	\$ 302,043
Contributions	-	-	-	-
Investment income	-	-	-	-
Including market appreciation	-	4,319	-	4,319
Distributions To MAH	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 73,291</u>	<u>\$ 233,071</u>	<u>\$ 306,362</u>

15. Front Street Annex Lease

The Organization leases certain real property that houses the commercial and professional space of the McPherson Center under an agreement with the County of Santa Cruz, Amendment No. 1 dated April 9, 2014. Under the agreement rental payments of 10% of gross rent are due on or before September 1 (10% of gross rent from January 1 to June 30) and March 1 (10% of gross rent from July 1 to December 31).

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

15. Front Street Annex Lease (continued)

For any six month period for which a use payment has been made (defined as a payment on the capital lease described in Note 8) such use payment shall satisfy the rental payment obligation.

Rental payments, other than those to be satisfied by a use payment, will commence September 1, 2021.

16. Unrestricted Net Assets

As of the year ended June 30, 2015, the Board has the following designated funds:

Operating Reserve Fund

During fiscal year ended June 30, 2014, to establish an Operating Reserve Fund the MAH Board of Directors designated \$100,000 of existing accumulated liquid net assets as the beginning balance of the Operating Reserve Fund. The goal is to add \$150,000 to the fund over the next six (6) fiscal years in annual increments of \$25,000. As of June 30, 2015, the board had funded an additional \$25,000, bringing the total designated operating reserve to \$125,000.

Facilities Reserve Fund

During fiscal year ended June 30, 2014, the MAH Board of Directors determined the need for a Facilities Reserve Fund and created a policy for funding. The Facility Reserve Fund will be funded with the net surplus of funds from the McPherson Center Office Building in excess of \$216,000. As of June 30, 2015, the board had funded the reserve in the amount of \$40,000

Publications Fund

The Organization has a Publications Fund for the purpose of setting aside funds for future publications.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

16. Unrestricted Net Assets (continued)

Spendable net asset

Total unrestricted net assets at June 30, 2015	\$ 4,307,256
Less non-spendable net assets	
Invested in property, plant and equipment net of accumulated depreciation and debt	(3,206,216)
Invested in inventories	(41,100)
Invested in other long term assets	<u>(237,572)</u>
Spendable net assets	822,368
Board designated unrestricted net assets	
Operating reserve	(125,000)
Facility reserve	(40,000)
Publications fund	<u>(26,346)</u>
Undesignated unrestricted spendable net assets	<u>\$ 631,022</u>

17. Special Events Fundraising

The Organization's Special Events Fundraising as of June 30, 2015 consisted of the following:

	<u>The Red Ball Annual Gala</u>	<u>Other Events</u>	<u>Total</u>
Revenues	\$ 98,566	\$ 54,583	\$ 153,149
Direct costs	<u>(16,521)</u>	<u>(35,302)</u>	<u>(51,823)</u>
Special events fundraising net of direct costs	<u>\$ 82,045</u>	<u>\$ 19,281</u>	<u>\$ 101,326</u>

18. Subsequent Events

The Organization's management has evaluated events and transactions subsequent to June 30, 2015, for potential recognition or disclosure in the financial statements. On January 16, 2016, subsequent to year end, the Organization entered into a 10 year sub-lease agreement with John McEnery III to operate a public market on the first floor of the McPherson Center. Subsequent events have been evaluated through February 12, 2016 the date the financial statements became available to be issued. The entity has not evaluated subsequent events after February 12, 2016.

SUPPLEMENTARY INFORMATION

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Schedule of Financial Position - Unrestricted Funds
June 30, 2015

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 768,851	\$ 34,258	\$ 103,432	\$ 906,541
Accounts receivable	1,000	-	153	1,153
Other assets	13,007	-	7,279	20,286
Inventories	41,100	-	-	41,100
 Total current assets	 <u>823,958</u>	 <u>34,258</u>	 <u>110,864</u>	 <u>969,080</u>
 Property, equipment and improvements, net	 <u>2,255,802</u>	 <u>-</u>	 <u>2,024,570</u>	 <u>4,280,372</u>
 Other assets				
Funds held by Community Foundation	51,666	-	-	51,666
Origination fee, net of amortization	9,906	-	-	9,906
Lease reserve	176,000	-	-	176,000
 Total other assets	 <u>237,572</u>	 <u>-</u>	 <u>-</u>	 <u>237,572</u>
 Total assets	 <u>\$ 3,317,332</u>	 <u>\$ 34,258</u>	 <u>\$ 2,135,434</u>	 <u>\$ 5,487,024</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Schedule of Financial Position - Unrestricted Funds (continued)
June 30, 2015

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Current liabilities				
Current portion capital lease	\$ 125,000	\$ -	\$ -	\$ 125,000
Accrued interest	25,492	-	-	25,492
Accounts payable	22,765	-	6,910	29,675
Tenant and facilities rental deposits	2,315	-	18,105	20,420
Accrued personal time off	29,725	-	-	29,725
	<u>205,297</u>	<u>-</u>	<u>25,015</u>	<u>230,312</u>
Total current liabilities				
Non-current liabilities				
Capital lease payable	949,156	-	-	949,156
	<u>949,156</u>	<u>-</u>	<u>-</u>	<u>949,156</u>
Total non-current liabilities				
Net assets, unrestricted	2,162,879	34,258	2,110,419	4,307,556
	<u>2,162,879</u>	<u>34,258</u>	<u>2,110,419</u>	<u>4,307,556</u>
Total liabilities and net assets	<u>\$ 3,317,332</u>	<u>\$ 34,258</u>	<u>\$ 2,135,434</u>	<u>\$ 5,487,024</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Schedule of Activities and Changes in Net Assets - Unrestricted Funds
For the Year Ended June 30, 2015

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Revenue and other support				
Contributions	\$ 122,603	\$ -	\$ -	\$ 122,603
Foundation and business grants	37,653	-	-	37,653
Special events fundraising, net of direct costs	82,045	19,281	-	101,326
Special appeals	4,677	-	-	4,677
Memberships	112,477	16,788	-	129,265
Santa Cruz County contract	117,094	-	-	117,094
Interest income	5,111	11	-	5,122
Museum store sales	5,434	-	-	5,434
Admissions	17,456	-	-	17,456
Program service fees	67,569	-	-	67,569
Facility rental income	51,082	-	-	51,082
Unrealized gains	1,099	-	-	1,099
Net assets released from restrictions	<u>739,638</u>	<u>-</u>	<u>-</u>	<u>739,638</u>
 Total revenue and other support	 <u>1,363,938</u>	 <u>36,080</u>	 <u>-</u>	 <u>1,400,018</u>
Other gains				
Rent and assessments McPherson Center	-	-	698,539	698,539
Interest income McPherson Center accounts	-	-	34	34
Expenses related to rents	<u>-</u>	<u>-</u>	<u>(416,720)</u>	<u>(416,720)</u>
 Total other gains	 <u>-</u>	 <u>-</u>	 <u>281,853</u>	 <u>281,853</u>

THE MUSEUM OF ART AND HISTORY AT MCPHERSON CENTER
(A California Public Benefit Corporation)
Schedule of Activities and Changes in Net Assets - Unrestricted Funds (continued)
For the Year Ended June 30, 2015

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Expenses				
Program				
Museum	\$ 1,243,850	\$ 30,012	\$ -	\$ 1,273,862
Supporting services				
Management and general	94,038	-	-	94,038
Development	<u>122,333</u>	<u>-</u>	<u>-</u>	<u>122,333</u>
Total expenses	<u>1,460,221</u>	<u>30,012</u>	<u>-</u>	<u>1,490,233</u>
Revenue and support over expenses	(96,283)	6,068	281,853	191,638
Operating transfers in (out)	<u>426,067</u>	<u>-</u>	<u>(426,067)</u>	<u>-</u>
Change in net assets	329,784	6,068	(144,214)	191,638
Net assets, beginning of year	<u>1,833,095</u>	<u>28,190</u>	<u>2,254,633</u>	<u>4,115,918</u>
Net assets, end of year	<u><u>\$ 2,162,879</u></u>	<u><u>\$ 34,258</u></u>	<u><u>\$ 2,110,419</u></u>	<u><u>\$ 4,307,556</u></u>

THE MUSEUM OF ART AND HISTORY AT MCPHERSON CENTER

(A Public Benefit Corporation)

Schedule of Functional Expenses

For the Year Ended June 30, 2015

Expenses	Program Service	Management and General	Development	Total
5100 Salary/wages	\$ 570,508	\$ 53,238	\$ 95,684	\$ 719,430
5101 Payroll service	1,988	281	219	2,488
5105 Benefits	56,692	8,018	6,244	70,954
5110 Payroll taxes	50,432	7,132	5,554	63,118
5115 Auto/mileage	281	-	-	281
5125 Printing	26,424	-	-	26,424
5126 Stationery	2,833	401	312	3,546
5129 Credit card fees	-	-	-	-
5131 Major donors	-	-	3,905	3,905
5135 Dues	5,143	-	-	5,143
5143 Staff	6,551	927	722	8,200
5145 Equipment lease	2,929	414	323	3,666
5155 Postage	3,667	190	368	4,225
5165 Office supplies	2,275	322	251	2,848
5170 Taxes and licenses	1,777	242	-	2,019
5175 Telephone	3,799	537	418	4,754
5185 Volunteer expense	3,048	-	-	3,048
5190 Auditing fee	-	12,975	-	12,975
5195 Maintenance	10,484	107	107	10,698
5200 Computer expense	7,098	1,004	782	8,884
5205 Bank service charges	-	806	-	806
5210 Other professional service	-	-	-	-
5212 Professional services	85,391	-	-	85,391
5215 Graphics	3,200	-	-	3,200
5230 Member receptions expense	6,464	-	-	6,464
5256 Curatorial fees	14,191	-	-	14,191
5260 Installation exhibition	40,421	-	-	40,421
5265 Permanent collection expense	1,211	-	-	1,211
5270 Exhibition shipping	6,026	-	-	6,026
5280 Exhibit insurance expense	400	-	-	400

THE MUSEUM OF ART AND HISTORY AT MCPHERSON CENTER

(A California Public Benefit Corporation)

Schedule of Functional Expenses (continued)

For the Year Ended June 30, 2015

		Program Service	Management and General	Development	Total
Expenses					
5306	Public programs expense	\$ 36,218	\$ -	\$ -	\$ 36,218
5310	Gallery activities	2,573	-	-	2,573
5311	School programs	1,254	-	-	1,254
5320	Evergreen programs	1,255	-	-	1,255
5321	Docent education	1,081	-	-	1,081
5324	Evergreen cemetery - maintenance	1,985	-	-	1,985
5331	Blue plaque expense	1,351	-	-	1,351
5360	Promotion	14,253	-	-	14,253
5370	Interest	40,787	5,098	5,098	50,983
5380	Fire/security	1,108	11	11	1,130
5385	Insurance	32,738	334	334	33,406
5390	Janitorial/landscaping	15,196	155	155	15,506
5400	PG&E	38,596	394	394	39,384
5405	Parking deficiency fund	9,579	98	98	9,775
5410	Repair/replacement	9,960	102	102	10,164
5415	Utility - other	4,477	46	46	4,569
5420	Depreciation and amortization expense	118,206	1,206	1,206	120,618
5430	Collections expense	-	-	-	-
5589	Theft loss	-	-	-	-
5590	Other expense	-	-	-	-
		<u>\$ 1,243,850</u>	<u>\$ 94,038</u>	<u>\$ 122,333</u>	<u>\$ 1,460,221</u>
McPherson Center expenses					
	Depreciation and amortization	\$ 132,113	\$ -	\$ -	\$ 132,113
	McPherson Center operating expense	284,607	-	-	284,607
		<u>\$ 416,720</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,720</u>