

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

Financial Statements and
Supplementary Information

June 30, 2017

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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, 2017, 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, 2016, 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}
San Jose, California

December 19, 2017

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Statement of Financial Position
June 30, 2017

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,244,342	\$ 843,283	\$ -	\$ 2,087,625
Accounts receivable	28,268	810,700	-	838,968
Prepaid expenses	14,070	-	-	14,070
Inventories	<u>41,519</u>	<u>-</u>	<u>-</u>	<u>41,519</u>
 Total current assets	 <u>1,328,199</u>	 <u>1,653,983</u>	 <u>-</u>	 <u>2,982,182</u>
 Property, equipment, and improvements, net	 <u>6,052,286</u>	 <u>-</u>	 <u>-</u>	 <u>6,052,286</u>
Other assets				
Investments	-	97,911	233,071	330,982
Funds held by Community Foundation	<u>51,701</u>	<u>-</u>	<u>-</u>	<u>51,701</u>
 Total other assets	 <u>51,701</u>	 <u>97,911</u>	 <u>233,071</u>	 <u>382,683</u>
 Total assets	 <u>\$ 7,432,186</u>	 <u>\$ 1,751,894</u>	 <u>\$ 233,071</u>	 <u>\$ 9,417,151</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, 2017

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current liabilities				
Current portion - note payable	\$ 183,113	\$ -	\$ -	\$ 183,113
Accounts payable	163,761	-	-	163,761
Tenant deposits	46,079	-	-	46,079
Master tenant deposit liability	-	-	-	-
Accrued personal time off	<u>56,967</u>	<u>-</u>	<u>-</u>	<u>56,967</u>
 Total current liabilities	 <u>449,920</u>	 <u>-</u>	 <u>-</u>	 <u>449,920</u>
Non-current liabilities				
 Note payable	 <u>703,103</u>	 <u>-</u>	 <u>-</u>	 <u>703,103</u>
 Total non-current liabilities	 <u>703,103</u>	 <u>-</u>	 <u>-</u>	 <u>703,103</u>
Net assets				
Unrestricted				
Operating	5,914,488	-	-	5,914,488
Board designated - operating reserve	175,000	-	-	175,000
Board designated - facility reserve	161,075	-	-	161,075
Board designated publications fund	<u>28,600</u>	<u>-</u>	<u>-</u>	<u>28,600</u>
Total unrestricted net assets	6,279,163	-	-	6,279,163
 Temporarily restricted	 -	 1,751,894	 -	 1,751,894
Permanently restricted	<u>-</u>	<u>-</u>	<u>233,071</u>	<u>233,071</u>
 Total net assets	 <u>6,279,163</u>	 <u>1,751,894</u>	 <u>233,071</u>	 <u>8,264,128</u>
 Total liabilities and net assets	 <u>\$ 7,432,186</u>	 <u>\$ 1,751,894</u>	 <u>\$ 233,071</u>	 <u>\$ 9,417,151</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support				
Contributions	\$ 192,683	\$ 193,125	\$ -	\$ 385,808
Grants	10,500	1,176,500	-	1,187,000
Special events fundraising, net of direct costs	102,207	-	-	102,207
Special appeals	15,010	-	-	15,010
Memberships	165,627	-	-	165,627
Santa Cruz County contract	154,594	-	-	154,594
Interest income	7,493	-	-	7,493
Museum store sales	9,150	-	-	9,150
Other revenue	2,874	-	-	2,874
Admissions	41,295	-	-	41,295
Program service fees	87,576	-	-	87,576
Facility rental income	75,078	-	-	75,078
Unrealized gains and losses on investments	3,067	25,898	-	28,965
Net assets released from restrictions	<u>2,774,558</u>	<u>(2,774,558)</u>	-	-
Total revenue and other support	<u>3,641,712</u>	<u>(1,379,035)</u>	-	<u>2,262,677</u>
Other gains				
Rents McPherson Center	725,994	-	-	725,994
Interest income McPherson Center accounts	17	-	-	17
Expenses related to rents	<u>(502,341)</u>	-	-	<u>(502,341)</u>
Total other gains	<u>223,670</u>	-	-	<u>223,670</u>
Expenses				
Program				
Museum	1,484,160	-	-	1,484,160
Support organizations	15,526	-	-	15,526
Supporting services				
Management and general	179,999	-	-	179,999
Development	<u>184,785</u>	-	-	<u>184,785</u>
Total expenses	<u>1,864,470</u>	-	-	<u>1,864,470</u>
Change in net assets	2,000,912	(1,379,035)	-	621,877
Net assets, beginning of year	<u>4,278,251</u>	<u>3,130,929</u>	<u>233,071</u>	<u>7,642,251</u>
Net assets, end of year	<u>\$ 6,279,163</u>	<u>\$ 1,751,894</u>	<u>\$ 233,071</u>	<u>\$ 8,264,128</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, 2017

Cash flows from operating activities	
Change in net assets	\$ 621,877
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	258,586
Unrealized gain on investments	(28,965)
Change in assets and liabilities	
Receivables	(592,683)
Other assets	6,304
Inventory	5,661
Accounts payable	121,496
Accrued personal time off	14,828
Deposits	<u>(583,687)</u>
Cash flows used in operating activities	<u>(176,583)</u>
Cash flows from investing activities	
Purchase of fixed assets, including CIP	<u>(2,164,301)</u>
Cash flows used in investing activities	<u>(2,164,301)</u>
Cash flows from investing activities	
Proceeds from investments (endowment)	8,566
Principal payments on debt	<u>(88,784)</u>
Cash flows used in financing activities	<u>(80,218)</u>
Decrease in cash and cash equivalents	(2,421,102)
Cash and cash equivalents, beginning of year	<u>4,508,727</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,087,625</u></u>
<u>Supplemental disclosure of cash flow information</u>	
Interest paid	<u><u>\$ 40,245</u></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, 2017

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 initial 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, 2017

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, 2017

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, 2017, 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, 2017

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 2013 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California returns for the tax years 2012 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, 2017 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, 2017, the Organization had \$751,192 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, 2017

4. 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. 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.

5. Property, Equipment, and Improvements

Details of property, equipment and improvements as of June 30, 2017, and related depreciation expense for the year then ended are as follows:

	<u>Museum</u>	<u>McPherson Center</u>	<u>Total</u>
Office furniture and equipment	\$ 44,670	\$ 25,489	\$ 70,159
Equipment	167,041	90,293	257,334
Museum store	68,625	-	68,625
Leasehold improvements	286,141	136,888	423,029
Land improvements	-	4,760	4,760
Evergreen cemetery	71,795	-	71,795
Construction in progress	2,509,598	-	2,509,598
Museum building	3,655,269	-	3,655,269
McPherson Center Building	-	<u>4,175,389</u>	<u>4,175,389</u>
	<u>6,803,139</u>	<u>4,432,819</u>	<u>11,235,958</u>
Less: accumulated depreciation	<u>(2,552,663)</u>	<u>(2,631,009)</u>	<u>(5,183,672)</u>
	<u>\$4,250,476</u>	<u>\$1,801,810</u>	<u>\$6,052,286</u>

Depreciation expense for the year ended June 30, 2017 consisted of \$138,283 included in expenses related to rents, and \$120,303 included in expenses.

Construction in progress consists of costs associated with Abbott Square Revitalization Project expected to be completed and placed in service in fiscal year 2017-2018.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

6. Note Payable

Note payable at June 30, 2017, consisted of the following:

Santa Cruz County Bank - Entered into on April 29, 2016, 8 monthly interest payments beginning May 29, 2016 on the unpaid principal at an interest of 4.1 percent, 60 monthly consecutive principal and interest payments thereafter of \$18,000, until paid in full.	\$ 886,216
Less: current portion	<u>(183,113)</u>
	<u>\$ 703,103</u>

Minimum future payments are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 183,113
2019	190,732
2020	198,701
2021	207,002
2022	<u>106,668</u>
	<u>\$ 886,216</u>

Interest expense for the year ended June 30, 2016 was \$40,245.

During the year ended June 30, 2016 the Organization obtained the loan from Santa Cruz County Bank in the amount of \$975,000 and paid off the outstanding principal of a capital lease in the amount of \$949,156. The capital lease was payable to Santa Cruz County under an agreement dated March 22, 1993. Subsequent to the final payment due on the Santa Cruz County Bank loan, the Organization will be required to make lease payments as described in Note 7.

7. 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).

For any six month period for which a use payment has been made (defined as a payment on the debt described in Note 6) 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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

8. 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 major tenants as disclosed in Note 9.

9. Major Tenant(s)

As of June 30, 2017, 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	\$19,896	38%
Tenant B	14,965	28%
Tenant C	6,427	12%
Various other tenants	<u>11,472</u>	<u>22%</u>
	<u>\$52,760</u>	<u>100%</u>

10. Temporarily Restricted Net Assets

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

Exhibit support	\$ 14,740
Unrealized gain on investments	97,911
Operating support 2017-2018	46,667
Engagement and capacity building 2017-2019	885,615
Abbott Square	569,330
Other temporarily restricted funds	<u>137,631</u>
Total temporarily restricted net assets	<u>\$ 1,751,894</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

11. 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, 2017, 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.

12. Special Events Fundraising

The Organization's Special Events Fundraising as of June 30, 2017 consisted of the following:

	<u>The Red Ball Annual Gala</u>	<u>Other Events</u>	<u>Total</u>
Revenues	\$ 119,233	\$ 24,903	\$ 144,136
Direct costs	<u>(24,939)</u>	<u>(16,990)</u>	<u>(41,929)</u>
Special events fundraising net of direct costs	<u>\$ 94,294</u>	<u>\$ 7,913</u>	<u>\$ 102,207</u>

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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

13. Fair Value Measurements (continued)

Fair value hierarchy (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

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, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment fund - exchange traded funds	\$ 322,677	\$ 322,677	-	-
Endowment fund - money market fund	8,305	8,305	-	-
Investment held by Community Foundation	51,701	51,701	-	-

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

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(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

14. Endowment Fund (continued)

function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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, 2017.

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, 2017

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. The Organization spending policy is to transfer as a distribution to the Organization an amount equal to the annual interest/dividend earnings while leaving market value increase in the fund.

Endowment net asset composition by type of fund as of June 30, 2017, 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>\$ 97,911</u>	<u>\$ 233,071</u>	<u>\$ 330,982</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 80,579	\$ 233,071	\$ 313,650
Contributions	-	-	-	-
Investment income Including market appreciation	-	25,898	-	25,898
Distributions To MAH	<u>-</u>	<u>(8,566)</u>	<u>-</u>	<u>(8,566)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 97,911</u>	<u>\$ 233,071</u>	<u>\$ 330,982</u>

Investment income is presented net of fees of \$3,663.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
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Notes to Financial Statements
June 30, 2017

15. Unrestricted Net Assets

As of the year ended June 30, 2017, 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. During the fiscal year ended June 30, 2017 the board had funded an additional \$25,000, bringing the total designated operating reserve to \$175,000.

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. During the fiscal year ended June 30, 2017, the board had defunded the reserve in the amount of \$60,000 leaving a remaining reserve of \$161,075.

Publications Fund

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

16. Abbott Square Revitalization Project

The project is to revitalize Abbott Square into a vibrant community plaza for Downtown – a place to meet, gather, be inspired, and connect. The project includes dramatic public art, delicious local food, ongoing performances, and a family-focused secret garden play area.

The final budget of \$4,581,155 for the project is a partnership between the Organization, a master tenant, and the City and County of Santa Cruz. The Organization's portion of the budget is \$3,661,968. As of June 30, 2017 the Organization has incurred costs of \$3,094,806. The remaining \$567,162 will be paid for with existing temporarily restricted net assets.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2017

17. Subsequent Events

The Organization's management has evaluated events and transactions subsequent to June 30, 2017, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through December 19, 2017 the date the financial statements became available to be issued. The entity has not evaluated subsequent events after December 19, 2017. The Organization did not have any subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2017.

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, 2017

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,113,183	\$ 27,512	\$ 103,647	\$ 1,244,342
Accounts receivable	6,900	-	21,368	28,268
Other assets	14,033	-	37	14,070
Inventories	<u>41,519</u>	<u>-</u>	<u>-</u>	<u>41,519</u>
 Total current assets	 <u>1,175,635</u>	 <u>27,512</u>	 <u>125,052</u>	 <u>1,328,199</u>
 Property, equipment and improvements, net	 <u>4,250,476</u>	 <u>-</u>	 <u>1,801,810</u>	 <u>6,052,286</u>
Other assets				
Funds held by Community Foundation	<u>51,701</u>	<u>-</u>	<u>-</u>	<u>51,701</u>
 Total other assets	 <u>51,701</u>	 <u>-</u>	 <u>-</u>	 <u>51,701</u>
 Total assets	 <u>\$ 5,477,812</u>	 <u>\$ 27,512</u>	 <u>\$ 1,926,862</u>	 <u>\$ 7,432,186</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, 2017

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Current liabilities				
Current portion - note payable	\$ 183,113	\$ -	\$ -	\$ 183,113
Accounts payable	146,247	-	17,514	163,761
Tenant and facilities rental deposits	14,025	-	32,054	46,079
Master tenant deposit liability	-	-	-	-
Accrued personal time off	<u>56,967</u>	<u>-</u>	<u>-</u>	<u>56,967</u>
Total current liabilities	<u>400,352</u>	<u>-</u>	<u>49,568</u>	<u>449,920</u>
Non-current liabilities				
Note payable	<u>703,103</u>	<u>-</u>	<u>-</u>	<u>703,103</u>
Total non-current liabilities	<u>703,103</u>	<u>-</u>	<u>-</u>	<u>703,103</u>
Net assets, unrestricted	<u>4,374,357</u>	<u>27,512</u>	<u>1,877,294</u>	<u>6,279,163</u>
Total liabilities and net assets	<u>\$ 5,477,812</u>	<u>\$ 27,512</u>	<u>\$ 1,926,862</u>	<u>\$ 7,432,186</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, 2017

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Revenue and other support				
Contributions	\$ 192,683	\$ -	\$ -	\$ 192,683
Foundation and business grants	10,500	-	-	10,500
Special events fundraising, net of direct costs	96,041	6,166	-	102,207
Special appeals	15,010	-	-	15,010
Memberships	150,317	15,310	-	165,627
Santa Cruz County contract	154,594	-	-	154,594
Interest income	7,483	10	-	7,493
Museum store sales, net of direct costs	9,150	-	-	9,150
Other revenue	2,874	-	-	2,874
Admissions	41,295	-	-	41,295
Program service fees	87,576	-	-	87,576
Facility rental income	75,078	-	-	75,078
Unrealized gains	3,067	-	-	3,067
Net assets released from restrictions	<u>2,774,558</u>	<u>-</u>	<u>-</u>	<u>2,774,558</u>
Total revenue and other support	<u>3,620,226</u>	<u>21,486</u>	<u>-</u>	<u>3,641,712</u>
Other gains				
Rent and assessments McPherson Center	-	-	725,994	725,994
Interest income McPherson Center accounts	-	-	17	17
Expenses related to rents	<u>-</u>	<u>-</u>	<u>(502,341)</u>	<u>(502,341)</u>
Total other gains	<u>-</u>	<u>-</u>	<u>223,670</u>	<u>223,670</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, 2017

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Expenses				
Program				
Museum	\$ 1,484,160	\$ 15,526	\$ -	\$ 1,499,686
Supporting services				
Management and general	179,999	-	-	179,999
Development	<u>184,785</u>	<u>-</u>	<u>-</u>	<u>184,785</u>
Total expenses	<u>1,848,944</u>	<u>15,526</u>	<u>-</u>	<u>1,864,470</u>
Revenue and support over expenses	1,771,282	5,960	223,670	2,000,912
Operating transfers in (out)	<u>318,030</u>	<u>-</u>	<u>(318,030)</u>	<u>-</u>
Change in net assets	2,089,312	5,960	(94,360)	2,000,912
Net assets, beginning of year	<u>2,285,045</u>	<u>21,552</u>	<u>1,971,654</u>	<u>4,278,251</u>
Net assets, end of year	<u>\$ 4,374,357</u>	<u>\$ 27,512</u>	<u>\$ 1,877,294</u>	<u>\$ 6,279,163</u>

THE MUSEUM OF ART AND HISTORY AT MCPHERSON CENTER

(A Public Benefit Corporation)

Schedule of Functional Expenses

For the Year Ended June 30, 2017

Expenses	<u>Program Service</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
5100 Salary/wages	\$ 636,497	\$ 125,507	\$ 134,471	\$ 896,475
5101 Payroll service	1,858	366	392	2,616
5105 Benefits	69,795	13,762	14,745	98,302
5110 Payroll taxes	54,299	10,707	11,472	76,478
5115 Auto/mileage	878	-	-	878
5125 Printing	6,599	574	-	7,173
5126 Stationery	1,555	306	328	2,189
5129 Credit card fees	-	-	-	-
5131 Major donors	-	-	8,158	8,158
5135 Dues	5,225	-	-	5,225
5143 Staff	11,250	2,218	2,377	15,845
5145 Equipment lease	4,293	846	907	6,046
5155 Postage	6,125	62	-	6,187
5165 Office supplies	2,662	525	562	3,749
5170 Taxes and licenses	2,433	128	-	2,561
5175 Telephone	3,392	669	717	4,778
5185 Volunteer expense	1,103	-	-	1,103
5190 Auditing fee	-	13,151	-	13,151
5195 Maintenance	12,882	131	131	13,144
5200 Computer expense	19,345	3,815	4,087	27,247
5205 Bank service charges	-	794	-	794
5210 Other professional service	-	-	-	-
5212 Professional services	163,461	-	-	163,461
5215 Graphics	5,348	-	-	5,348
5230 Receptions expense	6,513	-	-	6,513
5256 Curatorial fees	76,095	-	-	76,095
5260 Installation exhibition	43,185	-	-	43,185
5265 Permanent collection expense	923	-	-	923
5270 Exhibition shipping	4,195	-	-	4,195
5290 Exhibition installation	900	-	-	900

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, 2017

Expenses	Program Service	Management and General	Development	Total
5306 Public programs expense	\$ 31,856	\$ -	\$ -	\$ 31,856
5310 Gallery activities	4,005	-	-	4,005
5311 School programs	2,327	-	-	2,327
5320 Evergreen programs	3,204	-	-	3,204
5321 Docent education	1,450	-	-	1,450
5322 Sponsored projects	999	-	-	999
5324 Evergreen cemetery - maintenance	3,276	-	-	3,276
5331 Blue plaque expense	1,654	-	-	1,654
5360 Promotion	26,007	-	-	26,007
5370 Interest	32,195	4,025	4,025	40,245
5380 Fire/security	2,013	21	21	2,055
5385 Insurance	30,303	309	309	30,921
5390 Janitorial/landscaping	18,793	192	192	19,177
5400 PG&E	40,101	409	409	40,919
5405 Parking deficiency fund	9,579	98	98	9,775
5410 Repair/replacement	12,805	131	131	13,067
5415 Utility - other	4,885	50	50	4,985
5420 Depreciation	117,897	1,203	1,203	120,303
5430 Collections expense	-	-	-	-
5589 Theft loss	-	-	-	-
5590 Other expense	-	-	-	-
	<u>\$ 1,484,160</u>	<u>\$ 179,999</u>	<u>\$ 184,785</u>	<u>\$ 1,848,944</u>
McPherson Center expenses				
Depreciation	\$ 138,283	\$ -	\$ -	\$ 138,283
McPherson Center operating expense	364,058	-	-	364,058
	<u>\$ 502,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502,341</u>