

**The Museum of Art and History
at the McPherson Center**

(a California Public Benefit Corporation)

Financial Statements and
Supplementary Information

June 30, 2018



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 - 20
Supplementary Information	
Schedule of Financial Position - Unrestricted Funds	21 - 22
Schedule of Activities and Changes in Net Assets - Unrestricted Funds	23 - 24
Schedule of Functional Expenses	25 - 26

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, 2018, and the related statements of activities and changes in net assets, 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, 2018, 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 financial position – unrestricted funds, activities and changes in net assets, and of functional expenses on pages 21 - 26 are presented for purposes of additional analysis and are 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

April 24, 2019

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Statement of Financial Position
June 30, 2018

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 741,803	\$ 1,205,099	\$ -	\$ 1,946,902
U.S. Treasury bills	527,894	-	-	527,894
Accounts and grants receivable	66,221	618,744	-	684,965
Prepaid expenses	11,409	-	-	11,409
Inventories	46,457	-	-	46,457
	<u>1,393,784</u>	<u>1,823,843</u>	<u>-</u>	<u>3,217,627</u>
Total current assets				
Property, equipment, and improvements, net	<u>6,152,196</u>	<u>-</u>	<u>-</u>	<u>6,152,196</u>
Other assets				
Investments	-	108,623	233,071	341,694
Unemployment insurance reserve	5,888	-	-	5,888
Straight-line rent receivable	51,351	-	-	51,351
Beneficial interest in assets held by Community Foundation of Santa Cruz County	<u>51,450</u>	<u>-</u>	<u>-</u>	<u>51,450</u>
Total other assets	<u>108,689</u>	<u>108,623</u>	<u>233,071</u>	<u>450,383</u>
Total assets	<u>\$ 7,654,669</u>	<u>\$ 1,932,466</u>	<u>\$ 233,071</u>	<u>\$ 9,820,206</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 Financial Position (continued)
June 30, 2018

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current liabilities				
Current portion - note payable	\$ 190,732	\$ -	\$ -	\$ 190,732
Accounts payable	67,435	-	-	67,435
Tenant and facilities rental deposits	28,300	-	-	28,300
Deferred revenue	131,312	-	-	131,312
Accrued personal time off	<u>58,108</u>	<u>-</u>	<u>-</u>	<u>58,108</u>
Total current liabilities	<u>475,887</u>	<u>-</u>	<u>-</u>	<u>475,887</u>
Non-current liabilities				
Note payable	<u>512,334</u>	<u>-</u>	<u>-</u>	<u>512,334</u>
Total liabilities	<u>988,221</u>	<u>-</u>	<u>-</u>	<u>988,221</u>
Net assets				
Unrestricted				
Operating	6,179,027	-	-	6,179,027
Board designated - operating reserve	200,000	-	-	200,000
Board designated - program OFBYFOR ALL	100,000	-	-	100,000
Board designated - facilities reserve	161,075	-	-	161,075
Board designated - publications fund	<u>26,346</u>	<u>-</u>	<u>-</u>	<u>26,346</u>
Total unrestricted net assets	6,666,448	-	-	6,666,448
Temporarily restricted	-	1,932,466	-	1,932,466
Permanently restricted	<u>-</u>	<u>-</u>	<u>233,071</u>	<u>233,071</u>
Total net assets	<u>6,666,448</u>	<u>1,932,466</u>	<u>233,071</u>	<u>8,831,985</u>
Total liabilities and net assets	<u>\$ 7,654,669</u>	<u>\$ 1,932,466</u>	<u>\$ 233,071</u>	<u>\$ 9,820,206</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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Contributions	\$ 257,759	\$ 59,551	\$ -	\$ 317,310
Grants	30,000	1,113,500	-	1,143,500
Special events fundraising, net of direct costs	134,975	-	-	134,975
Special appeals	46,748	-	-	46,748
Memberships	189,921	-	-	189,921
Santa Cruz County contract	154,594	-	-	154,594
Interest income	8,590	-	-	8,590
Museum store sales, net of direct costs	7,595	-	-	7,595
Other revenue	50,965	-	-	50,965
Admissions	75,512	-	-	75,512
Program service fees	23,042	-	-	23,042
Facility rental income	81,923	-	-	81,923
Realized and unrealized gains on investments, net of investment expenses	4,044	18,490	-	22,534
Net assets released from restrictions	1,010,969	(1,010,969)	-	-
Total revenue and other support	<u>2,076,637</u>	<u>180,572</u>	<u>-</u>	<u>2,257,209</u>
Other income				
Rents McPherson Center	913,676	-	-	913,676
Interest income McPherson Center accounts	142	-	-	142
Expenses related to rents	(474,259)	-	-	(474,259)
Total other income	<u>439,559</u>	<u>-</u>	<u>-</u>	<u>439,559</u>
Expenses				
Program services				
Museum	1,647,063	-	-	1,647,063
Supporting organizations	34,947	-	-	34,947
Supporting services				
Management and general	212,502	-	-	212,502
Development	234,399	-	-	234,399
Total expenses	<u>2,128,911</u>	<u>-</u>	<u>-</u>	<u>2,128,911</u>
Change in net assets	387,285	180,572	-	567,857
Net assets, beginning of year	<u>6,279,163</u>	<u>1,751,894</u>	<u>233,071</u>	<u>8,264,128</u>
Net assets, end of year	<u>\$ 6,666,448</u>	<u>\$ 1,932,466</u>	<u>\$ 233,071</u>	<u>\$ 8,831,985</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, 2018

Cash flows from operating activities	
Change in net assets	\$ 567,857
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	346,950
Realized and unrealized gains on investments, net of investment expenses	(22,534)
Straight-line rental income	(51,351)
Change in assets and liabilities	
Accounts and grants receivable	154,003
Prepaid expenses	2,661
Inventories	(4,938)
Unemployment insurance reserve	(5,888)
Accounts payable	(96,326)
Deferred revenue	131,312
Accrued personal time off	1,141
Tenant and facilities rental deposits	<u>(17,779)</u>
Cash provided by operating activities	<u>1,005,108</u>
Cash flows from investing activities	
Purchase of investments	(525,627)
Purchase of property, equipment, and improvements, including CIP	<u>(446,860)</u>
Cash used in investing activities	<u>(972,487)</u>
Cash flows from financing activities	
Proceeds from investments - distributions from endowment fund, and community foundation	9,806
Principal payments on debt	<u>(183,150)</u>
Cash used in financing activities	<u>(173,344)</u>
Decrease in cash and cash equivalents	(140,723)
Cash and cash equivalents, beginning of year	<u>2,087,625</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,946,902</u></u>
<u>Supplemental disclosure of cash flow information</u>	
Interest paid	<u><u>\$ 32,853</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, 2018

1. General Information

The Museum of Art and History at the McPherson Center ("Museum" or "Organization") is a California nonprofit public benefit corporation that operates under the direction of a board of directors. 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, 2018

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 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, 2018

2. Summary of Significant Accounting Policies (continued)

Accounts and grants receivable

Accounts and grants receivable 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, 2018, the accounts treated as an investment are: (1) U.S. Treasury bills, (2) Endowment Fund held in various ETF funds and (3) amounts held under a beneficial interest in funds held by the Community Foundation of Santa Cruz County. When a nonprofit transfers assets to a charitable trust or community foundation in which the resource provider names itself as beneficiary, the economic benefit of the transferred asset remains with the resource provider. The asset received in exchange is a beneficial interest in assets held by others, measured at the fair value of the asset contributed. Changes in the value are recognized in the Statement of Activities and Changes in Net Assets as part of "Realized and unrealized gains on investments, net of investment expense."

Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur.

Property, equipment, and improvements

All property and equipment are stated at cost. Major improvements are charged to the property, equipment and improvements accounts, while maintenance and repairs which do not extend the life for the respective assets are expensed currently. The Organization capitalizes all purchases of property with a cost of \$500 or more and a useful life greater than one year. 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.

Inventories

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

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Collections

The Organization acquires its collections through purchase or by donation in-kind. No value has been assigned to the collections on the Statement of Financial Position 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 and Changes in Net Assets. The Organization acquires most of its art and historical 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, and are managed under the Organization's collection policy.

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 ended June 30, 2015 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California returns for the tax years ended June 30, 2014 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, 2018 the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Donated materials, services and facilities

Donated services and materials are recorded at their estimated fair value if they enhance the Museum's nonfinancial assets or require specialized skills that the Museum would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for contributed services for the substantial number of volunteers who donate significant amounts of their time in the Organization's program and supporting services, principally in membership development and in the display of exhibits because they did not qualify for recording under generally accepted accounting principle guidelines.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Revenue and revenue recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. At June 30, 2018 deferred program service revenue consisted of amounts received in advance for Museum Camp at the MAH to be held in August 2018. The amount of the of deferred Museum Camp revenue is included in "Deferred revenue" in the "Current liabilities" section in the statement of financial position was \$34,629 as of June 30, 2018.

Membership revenues, the term of the membership is for twelve months. Revenues are amortized into revenue over the membership period. The amount of the of deferred membership revenue is included in "Deferred revenue" in the "Current liabilities" section in the statement of financial position was \$96,683 as of June 30, 2018.

Rental Revenue – The Organization, as a lessor, for leases at The McPherson Center, has retained substantially all of the risks and benefits of ownership and accounts for its leases as operating leases. For lease agreements that provide for scheduled rent increases, rental income is recognized on a straight-line basis over the non-cancellable term of the leases, which commences when control of the space has been provided to the customer. If rental income calculated on a straight-line basis exceeds the cash rent due under a lease, the difference is recorded as an increase to straight-line rent receivable and an increase in rental income. If rental income on a straight-line basis is calculated to be less than cash received, there is a decrease in the same accounts. Contingent rental income, for example additional rent based on tenant meeting gross revenue benchmarks, is recorded at the time the tenant reaches the applicable benchmarks. The amount of the straight-line rent receivable included in "Other assets" in the statement of financial position was \$51,351 as of June 30, 2018.

Expenses subject to common area charges

The McPherson Center Office/retail building - Certain expenses are reimbursable to the Organization by tenants under lease agreements entered into with the Organization. The assessment is subject to an annual accounting and adjustment.

Functional allocation of expenses

The cost of providing program services and other activities have been presented on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management estimates.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

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

The Organization maintains its cash and cash equivalents in bank deposit accounts at various financial institutions. The balances at times may exceed federally insured limits. At June 30, 2018, the Organization had \$1,324,016 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 and U.S. treasury bills subject to market risk and interest rate risk.

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, 2018, and related depreciation expense for the year then ended are as follows:

	<u>Museum</u>	<u>McPherson Center</u>	<u>Total</u>
Office furniture	\$ 44,670	\$ 25,489	\$ 70,159
Equipment	241,709	90,292	332,001
Museum store	68,625	-	68,625
Leasehold improvements	332,828	136,888	469,716
Land improvements	-	4,760	4,760
Evergreen cemetery	71,795	-	71,795
Building use remodel	2,835,104	-	2,835,104
Museum building	3,655,269	-	3,655,269
McPherson Center Building	-	4,175,389	4,175,389
	<u>7,250,000</u>	<u>4,432,818</u>	<u>11,682,818</u>
Less: accumulated depreciation	<u>(2,765,300)</u>	<u>(2,765,322)</u>	<u>(5,530,622)</u>
	<u>\$4,484,700</u>	<u>\$1,667,496</u>	<u>\$6,152,196</u>

Depreciation expense for the year ended June 30, 2018 consisted of \$212,636 included in expenses, and \$134,314 included in expenses related to rents.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

6. Note Payable

Note payable at June 30, 2018, 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.	\$703,066
Less: current portion	<u>(190,732)</u>
	<u>\$512,334</u>

Minimum future payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$190,732
2020	198,701
2021	207,002
2022	<u>106,631</u>
	<u>\$703,066</u>

Interest expense for the year ended June 30, 2018 was \$32,853.

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, 2018

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. Rental Income

As of June 30, 2018, rent from three tenants in the office/retail building represented the majority of gross base rent. Percentage of Gross base rent from tenants is as follows:

	<u>Percent of Gross Base Rent</u>
Tenant A	38%
Tenant B	31%
Tenant C	12%
Various other tenants	<u>19%</u>
	<u>100%</u>

Minimum future rental receipts are due as follows:

<u>Year Ending June 30,</u>	
2019	\$ 640,647
2020	653,566
2021	539,436
2022	323,149
2023	257,266
Thereafter	<u>601,976</u>
	<u>\$3,016,040</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

10. Temporarily Restricted Net Assets

For the year ended June 30, 2018, activity in temporarily restricted net assets was as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Satisfied</u>	Balance <u>June 30, 2018</u>
Abbott Square OFBYFOR	\$ 569,330	\$ 19,201	\$ 459,628	\$ 128,903
ALL	-	825,000	-	825,000
Evergreen cemetery	-	85,000	-	85,000
Engagement and Capacity building 2018-2019	885,615	-	327,410	558,205
Operating support 2018-2019	96,671	130,000	85,008	141,663
Other	102,367	113,850	131,145	85,072
Endowment fund Investment income	<u>97,911</u>	<u>18,490</u>	<u>7,778</u>	<u>108,623</u>
	<u>\$1,751,894</u>	<u>\$1,191,541</u>	<u>\$1,010,969</u>	<u>\$1,932,466</u>

11. Unrestricted Net Assets

As of the year ended June 30, 2018, the Board has the following designated funds:

Operating Reserve Fund

During the year ended June 30, 2014, to establish an Operating Reserve Fund the Museum Board of Directors designated \$100,000 of existing accumulated liquid net assets as the beginning balance of the Operating Reserve Fund. The goal was to add \$150,000 to the fund over the next six (6) fiscal years in annual increments of \$25,000. During the year ended June 30, 2018 the board funded an additional \$25,000, bringing the total designated operating reserve to \$200,000.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

11. Unrestricted Net Assets (continued)

Facilities Reserve Fund

During the year ended June 30, 2014, the Museum 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 year ended June 30, 2017, the board 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.

OFBYFOR ALL Fund

The Organization has set aside \$100,000 to support the OFBYFOR ALL program, which enables civic and cultural organizations to effectively reflect, involve, and engage their diverse communities.

12. Special Events Fundraising

The Organization's Special events fundraising, net of direct costs, for the year ended June 30, 2018 consisted of the following:

	<u>The Red Ball Annual Gala</u>	<u>Other Events</u>	<u>Total</u>
Revenues	\$154,106	\$21,964	\$176,070
Direct costs	<u>(26,555)</u>	<u>(14,540)</u>	<u>(41,095)</u>
Special events fundraising net of direct costs	<u>\$127,551</u>	<u>\$ 7,424</u>	<u>\$134,975</u>

13. Employee Benefit Plans

During the year ended June 30, 2001, the Museum entered 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, 2018, the Museum made no contributions. 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 AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

14. Related Party Transactions

The following related party transactions occurred between the Organization and/or senior staff:
Contributions received for the year ended June 30, 2018 of \$135,814.

15. Self-Insured for Unemployment Insurance

The Organization is a member of Unemployment Services Trust (UST) which enables the Organization to be self-insured for unemployment claims. As such, the Organization does not pay unemployment taxes directly to the state of California and does not have unemployment insurance. UST acts as the administrator of any claims made against the Organization and specifies the recommended reserve the Organization maintains. The reserve account is held by UST. The Organization has reserved the amount recommended by UST, and at June 30, 2018, the Organization has \$5,888 on deposit with UST as a reserve to fund future claims. The reserve account is included in "Other assets" in the statement of financial position. The Organization could be required to make additional payments if claims exceed the reserve account.

16. 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 MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

16. Fair Value Measurements (continued)

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 ("Community Foundation") - 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, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment fund - exchange				
traded funds	\$ 341,694	\$ 341,694	\$ -	\$ -
U.S. Treasury bills	527,894	527,894	-	-
Investment held by Community Foundation	51,450	51,450	-	-

17. 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.

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 MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

17. Endowment Fund (continued)

Interpretation of relevant law (continued)

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, 2018.

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.

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.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER
(A California Public Benefit Corporation)
Notes to Financial Statements
June 30, 2018

17. Endowment Fund (continued)

Endowment net asset composition by type of fund as of June 30, 2018, 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>108,623</u>	\$ <u>233,071</u>	\$ <u>341,694</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 97,911	\$ 233,071	\$ 330,982
Investment income Including market appreciation	-	18,490	-	18,490
Distributions To the Organization	<u>-</u>	<u>(7,778)</u>	<u>-</u>	<u>(7,778)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>108,623</u>	\$ <u>233,071</u>	\$ <u>341,694</u>

Investment income is presented net of fees of \$3,921.

18. Subsequent Events

The Organization's management has evaluated events and transactions subsequent to June 30, 2018, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through April 24, 2019 the date the financial statements became available to be issued. The entity has not evaluated subsequent events after April 24, 2019. The Organization did not have any subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2018.

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, 2018

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 538,379	\$ 11,732	\$ 191,692	\$ 741,803
U.S. Treasury bills	527,894	-	-	527,894
Accounts and grants receivable	39,256	-	26,965	66,221
Prepaid expenses	11,372	-	37	11,409
Inventories	<u>46,457</u>	<u>-</u>	<u>-</u>	<u>46,457</u>
 Total current assets	 <u>1,163,358</u>	 <u>11,732</u>	 <u>218,694</u>	 <u>1,393,784</u>
 Property, equipment and improvements, net	 <u>4,484,700</u>	 <u>-</u>	 <u>1,667,496</u>	 <u>6,152,196</u>
Other assets				
Unemployment insurance reserve	5,888	-	-	5,888
Straight-line rent receivable	-	-	51,351	51,351
Beneficial interest in assets held by Community Foundation of Santa Cruz	<u>51,450</u>	<u>-</u>	<u>-</u>	<u>51,450</u>
 Total other assets	 <u>57,338</u>	 <u>-</u>	 <u>51,351</u>	 <u>108,689</u>
 Total assets	 <u><u>\$ 5,705,396</u></u>	 <u><u>\$ 11,732</u></u>	 <u><u>\$ 1,937,541</u></u>	 <u><u>\$ 7,654,669</u></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, 2018

	Museum	Supporting Organizations	McPherson Center	Total
Current liabilities				
Current portion - note payable	\$ 190,732	\$ -	\$ -	\$ 190,732
Accounts payable	48,027	-	19,408	67,435
Tenant and facilities rental deposits	-	-	28,300	28,300
Deferred revenue	131,312	-	-	131,312
Accrued personal time off	58,108	-	-	58,108
	<u>428,179</u>	<u>-</u>	<u>47,708</u>	<u>475,887</u>
Total current liabilities				
	<u>428,179</u>	<u>-</u>	<u>47,708</u>	<u>475,887</u>
Non-current liabilities				
Note payable	512,334	-	-	512,334
	<u>512,334</u>	<u>-</u>	<u>-</u>	<u>512,334</u>
Total liabilities	940,513	-	47,708	988,221
	<u>940,513</u>	<u>-</u>	<u>47,708</u>	<u>988,221</u>
Net assets, unrestricted	4,764,883	11,732	1,889,833	6,666,448
	<u>4,764,883</u>	<u>11,732</u>	<u>1,889,833</u>	<u>6,666,448</u>
Total liabilities and net assets	\$ 5,705,396	\$ 11,732	\$ 1,937,541	\$ 7,654,669
	<u>\$ 5,705,396</u>	<u>\$ 11,732</u>	<u>\$ 1,937,541</u>	<u>\$ 7,654,669</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, 2018

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Revenue and other support				
Contributions	\$ 257,759	\$ -	\$ -	\$ 257,759
Grants	30,000	-	-	30,000
Special events fundraising, net of direct costs	127,551	7,424	-	134,975
Special appeals	46,748	-	-	46,748
Memberships	178,187	11,734	-	189,921
Santa Cruz County contract	154,594	-	-	154,594
Interest income	8,581	9	-	8,590
Museum store sales, net of direct costs	7,595	-	-	7,595
Other revenue	50,965	-	-	50,965
Admissions	75,512	-	-	75,512
Program service fees	23,042	-	-	23,042
Facility rental income	51,940	-	29,983	81,923
Realized and unrealized gains on investments, net of investment expenses	4,044	-	-	4,044
Net assets released from restrictions	<u>1,010,969</u>	<u>-</u>	<u>-</u>	<u>1,010,969</u>
 Total revenue and other support	 <u>2,027,487</u>	 <u>19,167</u>	 <u>29,983</u>	 <u>2,076,637</u>
Other income				
Rents McPherson Center	-	-	913,676	913,676
Interest income McPherson Center accounts	-	-	142	142
Expenses related to rents	<u>-</u>	<u>-</u>	<u>(474,259)</u>	<u>(474,259)</u>
 Total other income	 <u>-</u>	 <u>-</u>	 <u>439,559</u>	 <u>439,559</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 (continued)
For the Year Ended June 30, 2018

	<u>Museum</u>	<u>Supporting Organizations</u>	<u>McPherson Center</u>	<u>Total</u>
Expenses				
Program services				
Museum	\$ 1,647,063	\$ 34,947	\$ -	\$ 1,682,010
Supporting services				
Management and general	212,502	-	-	212,502
Development	<u>234,399</u>	<u>-</u>	<u>-</u>	<u>234,399</u>
Total expenses	<u>2,093,964</u>	<u>34,947</u>	<u>-</u>	<u>2,128,911</u>
Revenue and other support, and other income in excess of expenses	(66,477)	(15,780)	469,542	387,285
Operating transfers in (out)	<u>457,003</u>	<u>-</u>	<u>(457,003)</u>	<u>-</u>
Change in net assets	390,526	(15,780)	12,539	387,285
Net assets, beginning of year	<u>4,374,357</u>	<u>27,512</u>	<u>1,877,294</u>	<u>6,279,163</u>
Net assets, end of year	<u>\$ 4,764,883</u>	<u>\$ 11,732</u>	<u>\$ 1,889,833</u>	<u>\$ 6,666,448</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

(A California Public Benefit Corporation)

Schedule of Functional Expenses

For the Year Ended June 30, 2018

		Program Services	Management and General	Development	McPherson Center	Total
Expenses						
5100	Salary/wages	\$ 803,644	\$ 158,465	\$ 169,784	\$ -	\$ 1,131,893
5101	Payroll service	1,825	360	386	-	2,571
5105	Benefits	85,353	16,830	18,032	-	120,215
5110	Payroll taxes	55,272	10,899	11,677	-	77,848
5115	Auto/mileage	3,617	-	-	-	3,617
5125	Printing	4,581	-	2,156	-	6,737
5126	Stationery	433	85	92	-	610
5131	Donor cultivation	-	-	16,549	-	16,549
5135	Dues	5,225	-	-	-	5,225
5143	Staff	13,982	2,757	2,954	-	19,693
5145	Equipment lease	4,505	888	952	-	6,345
5155	Postage	6,516	202	-	-	6,718
5165	Office supplies	2,195	433	464	-	3,092
5170	Taxes and licenses	3,991	166	-	-	4,157
5175	Telephone	3,391	669	716	-	4,776
5185	Volunteer expense	1,150	-	-	-	1,150
5190	Auditing fee	-	9,300	-	-	9,300
5195	Maintenance	10,766	110	110	-	10,986
5200	Computer expense	16,402	3,234	3,465	-	23,101
5205	Bank service charges	-	1,042	-	-	1,042
5210	Other professional service	41,723	-	-	-	41,723
5212	Professional services	6,371	-	-	-	6,371
5215	Graphics	2,572	-	-	-	2,572
5256	Curatorial fees	29,998	-	-	-	29,998
5260	Installation exhibition	31,974	-	-	-	31,974
5265	Permanent collection expense	1,168	-	-	-	1,168
5270	Exhibition shipping	2,958	-	-	-	2,958

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

(A California Public Benefit Corporation)

Schedule of Functional Expenses (continued)

For the Year Ended June 30, 2018

		Program Services	Management and General	Development	McPherson Center	Total
Expenses						
5306	Public programs expense	\$ 45,178	\$ -	\$ -	\$ -	\$ 45,178
5308	Other Professional services	7,024	-	-	-	7,024
5310	Gallery activities	8,324	-	-	-	8,324
5311	School programs	1,901	-	-	-	1,901
5320	Evergreen programs	2,582	-	-	-	2,582
5321	Docent education	1,789	-	-	-	1,789
5324	Evergreen cemetery - maintenance	4,086	-	-	-	4,086
5325	Davenport jail - maintenance	1,212	-	-	-	1,212
5331	Blue plaque expense	1,740	-	-	-	1,740
5360	Promotion	37,204	-	-	-	37,204
5371	Interest	26,283	3,285	3,285	-	32,853
5380	Fire/security	7,400	76	76	-	7,552
5385	Insurance	36,873	376	376	-	37,625
5390	Janitorial/landscaping	44,547	455	455	-	45,457
5400	PG&E	41,905	428	428	-	42,761
5405	Parking deficiency fund	9,579	98	98	-	9,775
5410	Repair/replacement	16,495	168	168	-	16,831
5415	Utility - other	4,945	50	50	-	5,045
5420	Depreciation	208,384	2,126	2,126	134,314	346,950
5590	Other expense	-	-	-	339,945	339,945
		<u>\$ 1,647,063</u>	<u>\$ 212,502</u>	<u>\$ 234,399</u>	<u>\$ 474,259</u>	<u>\$ 2,568,223</u>
	Supporting organizations	34,947	-	-	-	34,947
	Less expenses included with other income as expenses related to rents	<u>-</u>	<u>-</u>	<u>-</u>	<u>474,259</u>	<u>474,259</u>
		<u><u>\$ 1,682,010</u></u>	<u><u>\$ 212,502</u></u>	<u><u>\$ 234,399</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,128,911</u></u>
	Plus expenses included with revenue and other support					
	Cost of goods sold					19,113
	Direct benefits to donors					41,095
						<u><u>\$ 2,189,119</u></u>

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A Note from the MAH About the Launch of OFBYFOR ALL

In March of 2018, the MAH’s board of directors voted to formalize the OFBYFOR ALL pilot program to share the MAH’s model for community-based programming with civic and cultural institutions throughout the world. At that time, the board allocated \$100,000 of funding to support the launch of this project. These funds were never spent, and have since been reallocated to the MAH’s unrestricted fund balance.

As of June 30, 2018 the MAH had received 3 restricted grants and contributions totaling \$825,000 dedicated specifically for this project. These funds appear on the MAH’s financial reports as “temporarily restricted net assets.”

In January 2019, the MAH’s board of directors voted to spin off the OFBYFOR ALL program into a standalone organization and to serve as its fiscal sponsor until its 501c3 status was received. Under fiscal sponsorship, the MAH holds temporarily restricted funds on behalf of OFBYFOR ALL and accepts tax-exempt donations on its behalf. All grants and donations to OFBYFOR ALL that are held by the MAH are designated and restricted as such. The MAH does not provide any museum funds to OFBYFOR ALL. OFBYFOR ALL pays the MAH a standard fiscal sponsorship fee for this service.

In August 2019, OFBYFOR ALL received 501c3 status from the IRS. The MAH and OFBYFOR ALL are now in the process of ending fiscal sponsorship. As of November 1, 2019, the two organizations will be separate, independent 501c3 nonprofits.