

**THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER**

Financial Report

Years ended June 30, 2024 and 2023

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(831) 724-2441
579 Auto Center Dr.
Watsonville, CA 95076

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of The Museum of Art and History at the McPherson Center (a nonprofit organization), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

The image shows a handwritten signature in black ink that reads "Hatcher and Bloodgood LLP". The signature is written in a cursive, flowing style.

February 12, 2025

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 410,221	\$ 116,278	\$ 526,499
Grants receivable, current	38,649	205,537	244,186
Accounts receivable	16,525	--	16,525
Rents and trash district fees receivable	6,949	--	6,949
Prepaid expenses	49,238	--	49,238
Inventories	32,949	--	32,949
	554,531	321,815	876,346
Total current assets	554,531	321,815	876,346
PROPERTY, EQUIPMENT AND IMPROVEMENTS, net	4,312,397	--	4,312,397
OTHER ASSETS			
Investments	--	404,552	404,552
Grants receivable, net of discount (Note 3)	--	213,285	213,285
Straight-line rent receivable	85,793	--	85,793
Beneficial interest in assets held by others	53,547	--	53,547
Right-of-use asset	10,116	--	10,116
	149,456	617,837	767,293
Total other assets	149,456	617,837	767,293
Total assets	\$ 5,016,384	\$ 939,652	\$ 5,956,036

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 280,940	\$ --	\$ 280,940
Accrued personal time off	45,922	--	45,922
Tenant deposits	28,252	--	28,252
Deferred revenue	56,811	--	56,811
Unemployment insurance reserve deficit	7,408	--	7,408
Current portion of lease liability	1,969	--	1,969
Note payable	100,000	--	100,000
	521,302	--	521,302
LONG-TERM LIABILITIES			
Lease liability, net of current portion	8,147	--	8,147
	529,449	--	529,449
NET ASSETS			
Without donor restrictions			
Undesignated	188,890	--	188,890
Invested in property and equipment, net of related debt	4,212,397	--	4,212,397
Board designated - facilities reserve	54,915	--	54,915
Board designated - publications fund	30,733	--	30,733
Total net assets without donor restrictions	4,486,935	--	4,486,935
With donor restrictions			
Time and use restricted	--	706,581	706,581
Donor-restricted endowment	--	233,071	233,071
Total net assets with donor restrictions	--	939,652	939,652
Total net assets	4,486,935	939,652	5,426,587
Total liabilities and net assets	\$ 5,016,384	\$ 939,652	\$ 5,956,036

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 456,080	\$ 287,142	\$ 743,222
Grants receivable	38,648	129,871	168,519
Accounts receivable	26,500	--	26,500
Rents and trash district fees receivable	46,327	--	46,327
Prepaid expenses	110,544	--	110,544
Inventories	33,454	--	33,454
	711,553	417,013	1,128,566
Total current assets	711,553	417,013	1,128,566
PROPERTY, EQUIPMENT AND IMPROVEMENTS, net	4,628,556	--	4,628,556
OTHER ASSETS			
Investments	--	378,057	378,057
Unemployment insurance reserve	1,079	--	1,079
Straight-line rent receivable	108,864	--	108,864
Beneficial interest in assets held by others	51,173	--	51,173
	161,116	378,057	539,173
Total other assets	161,116	378,057	539,173
Total assets	\$ 5,501,225	\$ 795,070	\$ 6,296,295

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 65,062	\$ --	\$ 65,062
Accrued personal time off	50,016	--	50,016
Tenant deposits	30,752	--	30,752
Deferred revenue	63,263	--	63,263
Total current liabilities	209,093	--	209,093
NET ASSETS			
Without donor restrictions			
Undesignated	493,079	--	493,079
Invested in property and equipment, net of related debt	4,628,556	--	4,628,556
Board designated - facilities reserve	143,075	--	143,075
Board designated - publications fund	27,422	--	27,422
Total net assets without donor restrictions	5,292,132	--	5,292,132
With donor restrictions			
Time and use restricted	--	561,999	561,999
Donor-restricted endowment	--	233,071	233,071
Total net assets with donor restrictions	--	795,070	795,070
Total net assets	5,292,132	795,070	6,087,202
Total liabilities and net assets	\$ 5,501,225	\$ 795,070	\$ 6,296,295

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF ACTIVITIES

Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Revenue and other support:			
Contributions and grants	\$ 239,670	\$ 634,859	\$ 874,529
Contracts Santa Cruz County historic preservation	154,594	--	154,594
Memberships	78,012	--	78,012
Museum admissions	72,521	--	72,521
Program service fees	161,133	--	161,133
Museum store sales	8,576	--	8,576
Interest and dividend income	104	11,485	11,589
Unrealized gain	3,170	31,809	34,979
Net assets released from restrictions	533,571	(533,571)	--
	<u>1,251,351</u>	<u>144,582</u>	<u>1,395,933</u>
Total revenue and other support			
Other income:			
McPherson Center rental and trash service	987,880	--	987,880
Expenses related to rents and trash service	(903,827)	--	(903,827)
	<u>84,053</u>	<u>--</u>	<u>84,053</u>
Total other income			
	<u>1,335,404</u>	<u>144,582</u>	<u>1,479,986</u>
Total revenue, support and other income			
EXPENSES			
Program services	1,616,856	--	1,616,856
Management and general	364,155	--	364,155
Fundraising	159,590	--	159,590
	<u>2,140,601</u>	<u>--</u>	<u>2,140,601</u>
Total program and support services			
Increase (decrease) in net assets	(805,197)	144,582	(660,615)
Net assets, beginning	<u>5,292,132</u>	<u>795,070</u>	<u>6,087,202</u>
Net assets, ending	<u>\$ 4,486,935</u>	<u>\$ 939,652</u>	<u>\$ 5,426,587</u>

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Revenue and other support:			
Contributions and grants	\$ 434,082	\$ 218,500	\$ 652,582
Employee retention tax credit	453,850	--	453,850
Contracts Santa Cruz County historic preservation	154,594	--	154,594
Memberships	87,425	--	87,425
Museum admissions	57,115	--	57,115
Program service fees	205,924	--	205,924
Museum store sales	9,636	--	9,636
Interest and dividend income	9,679	9,675	19,354
Unrealized gain	4,905	20,178	25,083
Net assets released from restrictions	573,030	(573,030)	--
Total revenue and other support	<u>1,990,240</u>	<u>(324,677)</u>	<u>1,665,563</u>
Other income:			
McPherson Center rental and trash service	1,014,047	--	1,014,047
Expenses related to rents and trash service	(589,515)	--	(589,515)
Total other income	<u>424,532</u>	<u>--</u>	<u>424,532</u>
Total revenue, support and other income	<u>2,414,772</u>	<u>(324,677)</u>	<u>2,090,095</u>
EXPENSES			
Program services	1,496,792	--	1,496,792
Management and general	379,178	--	379,178
Fundraising	408,934	--	408,934
Total program and support services	<u>2,284,904</u>	<u>--</u>	<u>2,284,904</u>
Increase (decrease) in net assets	129,868	(324,677)	(194,809)
Net assets, beginning	<u>5,162,264</u>	<u>1,119,747</u>	<u>6,282,011</u>
Net assets, ending	<u>\$ 5,292,132</u>	<u>\$ 795,070</u>	<u>\$ 6,087,202</u>

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2024

	Program Services	Support Services		Total Support Services	McPherson Center	Total
		Management and General	Fundraising			
Personnel	\$ 840,371	\$ 106,862	\$ 99,280	\$ 206,142	\$ --	\$ 1,046,513
Professional services	10,914	112,268	1,267	113,535	3,500	127,949
Administration and facility	142,113	14,053	19,040	33,093	570,017	745,223
Depreciation	--	109,213	--	109,213	258,575	367,788
Exhibitions and collections	261,754	--	--	--	--	261,754
Fundraising and memberships	--	--	26,881	26,881	--	26,881
Insurance	27,190	21,620	1,087	22,707	21,677	71,574
Programs	271,067	--	--	--	--	271,067
Museum store sales cost of goods sold	4,189	--	--	--	--	4,189
Marketing and promotion	59,258	139	12,035	12,174	--	71,432
Property taxes	--	--	--	--	50,058	50,058
	<u>1,616,856</u>	<u>364,155</u>	<u>159,590</u>	<u>523,745</u>	<u>903,827</u>	<u>3,044,428</u>
Less expenses included with other income as expenses related to rents	--	--	--	--	(903,827)	(903,827)
	<u>\$ 1,616,856</u>	<u>\$ 364,155</u>	<u>\$ 159,590</u>	<u>\$ 523,745</u>	<u>\$ --</u>	<u>\$ 2,140,601</u>

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

	Program Services	Support Services		Total Support Services	McPherson Center	Total
		Management and General	Fundraising			
Personnel	\$ 643,152	\$ 179,566	\$ 294,086	\$ 473,652	\$ 48,000	\$ 1,164,804
Professional services	6,407	159,758	2,857	162,615	7,236	176,258
Administration and facility	133,198	27,753	26,362	54,115	352,212	539,525
Depreciation	250,461	2,556	2,556	5,112	109,794	365,367
Exhibitions and collections	329,502	--	--	--	--	329,502
Fundraising and memberships	--	--	58,497	58,497	--	58,497
Insurance	22,160	9,343	6,423	15,766	19,792	57,718
Interest	--	--	--	--	2,993	2,993
Programs	47,430	--	912	912	--	48,342
Museum store sales cost of goods sold	6,143	--	--	--	--	6,143
Marketing and promotion	58,339	202	17,241	17,443	--	75,782
Property taxes	--	--	--	--	49,488	49,488
	<u>1,496,792</u>	<u>379,178</u>	<u>408,934</u>	<u>788,112</u>	<u>589,515</u>	<u>2,874,419</u>
Less expenses included with other income as expenses related to rents	--	--	--	--	(589,515)	(589,515)
	<u>\$ 1,496,792</u>	<u>\$ 379,178</u>	<u>\$ 408,934</u>	<u>\$ 788,112</u>	<u>\$ --</u>	<u>\$ 2,284,904</u>

The notes to financial statements are an integral part of this statement.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

	2024	2023
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS		
FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (660,615)	\$ (194,809)
Adjustments to reconcile decrease in net assets to cash provided (used) by operating activities:		
Depreciation	367,788	365,367
Change in beneficial interest in assets held by others	(2,374)	(2,137)
Change in investments	(38,913)	(25,770)
Straight-line rental income	23,071	(23,881)
(Increase) decrease in:		
Accounts and grants receivable	(278,977)	458,675
Rents and trash district fees receivable	39,378	6,962
Prepaid expenses	61,306	(51,731)
Inventories	505	(3,596)
Unemployment insurance reserve	8,487	19,107
Increase (decrease) in:		
Accounts payable	215,878	(8,709)
Accrued personal time off	(4,094)	(615)
Tenant deposits	(2,500)	627
Deferred revenue	(6,452)	(18,080)
Net cash provided (used) by operating activities	<u>(277,512)</u>	<u>521,410</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	12,418	9,202
Purchase of property and equipment	(51,629)	(166,310)
Net cash used by investing activities	<u>(39,211)</u>	<u>(157,108)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit	100,000	--
Payments of principal on note payable	--	(136,086)
Net cash provided (used) by financing activities	<u>100,000</u>	<u>(136,086)</u>
Net increase (decrease) in cash and cash equivalents	<u>(216,723)</u>	<u>228,216</u>
Cash and Cash Equivalents, beginning	<u>743,222</u>	<u>515,006</u>
Cash and Cash Equivalents, ending	<u>\$ 526,499</u>	<u>\$ 743,222</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ --</u>	<u>\$ 2,993</u>

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

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements

Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: The Museum of Art and History at the McPherson Center (the “Organization”) was incorporated as a California public benefit corporation, which operates under the direction of its Board of Trustees. The Organization's objectives and purposes include exploring diverse cultural ideas, issues, and perspectives through artistic experience and regional history. Dedicated to excellence, the Organization 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 of the History Forum, a supporting organization. The income from that organization provides additional sources of funding for the Organization.

The McPherson Center consists of two components: 1) Museum building, housing the exhibition and administrative offices of The Museum of Art and History, and 2) Office/Retail Building, containing 23,873 square feet of office and retail space. The addition of the Museum building in 1992 necessitated the creation of a museum-managed Trash District to support the museum and office/retail buildings, as well as the surrounding Palomar, Neary, and Cooper buildings.

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%.

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

Significant Standing Committees of the Board responsible for overseeing certain aspects of the Organization are: 1) Executive Committee, assuring continuity of organizational decision-making between Board meetings; 2) Finance Committee, reviewing financial matters including budgets, financial reports, and investments and investment policy; 3) Audit Committee, overseeing material aspects of the Organization's financial reporting, internal controls, risk management, and compliance; 4) Development Committee, exploring and developing strategies for financial resources to cover operating and capital funding goals. Other Standing Committees oversee aspects of the work related to Nominating & Governance, Strategic Planning, and Diversity, Equity, Inclusion and Accessibility (“DEIA”).

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies: Significant accounting policies are:

Basis of Accounting: The Organization uses the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Net Assets: The Organization's net assets and changes therein are classified and reported as follows:

- **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the governing Board. Under this category, the Organization maintains an operating fund plus any net assets designated by the governing Board for specific purposes. Governing board restrictions from net assets without donor restrictions are described in Note 7.
- **Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors or grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Functional Allocation of Expenses: The costs of providing program services and other activities have been presented on a functional basis in the statement of activities. Expenses that are attributable to more than one program or supporting function, such as salaries, payroll taxes and employee benefits, are allocated based on studies of time and effort. Occupancy, utilities, depreciation, and amortization are allocated on a square footage basis.

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Rents and Trash District Fees Receivable: Rents and trash district fees receivable represent amounts owed to the Organization for McPherson Center tenant rent, triple net charges, and trash district fees based on the terms of the lease agreements.

The Organization makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent, and triple net charges. The Organization considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns in its evaluation of the adequacy of the allowance for credit losses. As of June 30, 2024 and 2023, the Organization expects all rent and trash district fees to be collected.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Accounts Receivable: Grants and accounts receivable that are expected to be collected within one year are recorded at net realizable value. Grants and accounts receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Grants and accounts receivable are stated as unpaid balances, less an allowance for credit losses. Accounts and grants receivable are stated at face value since probable uncollectible amounts are immaterial.

Grants and Donations: Grants and donations that are restricted by the donor or grantor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other restricted revenue is reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Inventories: Inventories are comprised of program-related books and merchandise held for sale and are stated at the lower of cost or net realizable value determined by the first-in, first-out basis.

Property and Equipment: The Organization capitalizes all expenditures for property and equipment in excess of \$2,500 or leasehold improvements in excess of \$10,000. All property and equipment are stated at cost, or if donated, at estimated fair value on the date of donation. 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 is computed on the straight-line method over the useful lives of the assets as follows:

Buildings and improvements	15 to 40 years
Furniture and equipment	5 to 7 years

Permanent Collection: The Organization maintains a permanent collection of art, consisting of regionally significant art and artifacts and history, consisting of original publications, detailed history journals, research library, historical archive, and historical sites, including the Evergreen Cemetery, Octagon Building, and Davenport Jail. Collections are managed under the Organization's collection policy. The collection is not recognized as an asset in the statement of financial position. The Organization acquires most of its art and historical archival collections through contributions. The value of archives acquired through contributions is not susceptible to objective valuation and has not been reflected in the financial statements. The current year purchases are reflected in the statement of activities and changes in net assets. Each piece of the collection is inventoried and cared for. Proceeds from and deaccessions or insurance recoveries may be allocated for purposes that clearly benefit the collections, such as acquisition, preservation, or conservation.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements

Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and changes in net assets, and consists of interest and dividend income, and realized and unrealized capital gains and losses, less external and direct internal investment expenses. Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Organization's investments and total net assets balance could fluctuate materially.

Revenue Recognition: Contributions and contributions receivable are recognized when a donor makes a pledge to give, that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions, depending on the nature of donor restrictions. Contributions with donor restrictions are reported as increases in net assets with donor restrictions. When the restriction is met, the amount is shown in the statement of activities and changes in net assets as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Conditional grants and contributions are recognized when the Organization meets the terms or the conditions.

The Organization has multiple revenue streams, including admissions, membership, facility rental, and store activities. The Organization recognizes revenue from admissions at the time of admission. Membership dues have a term of twelve months, hence, recognized as revenue over the membership period. Facility rental income includes a non-refundable advance recorded as revenue when the facility rental agreement is signed, and the remainder is recognized when the event is held. Store sales are recognized at point of sale. Amounts received in advance under contracts with customers are reported as deferred 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 the tenant meeting gross revenue benchmarks, is recorded at the time the tenant reaches the applicable benchmarks. When current rent is paid in advance, it is recorded in deferred revenue. The amount of the straight-line rent receivable was \$85,793 and \$108,864 as of June 30, 2024 and 2023, respectively.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Services and Facilities: Donated services and materials are recorded at their estimated fair value if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization 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. In-kind special event auction items to be sold are reported as part of special event at the auction price.

Expenses Subject to Common Area Charges: The McPherson Center office/retail building lease agreements with tenants generally contain provisions that require tenants to reimburse the Organization for certain property expenses. Estimated reimbursements from tenants for real estate taxes, common area maintenance, and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year end, the Organization performs final reconciliations on a lease-by-lease basis and bill or credit each tenant for cumulative annual adjustments.

Use of Estimates: Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising: Advertising costs are expensed as incurred and totaled \$21,554 and \$22,403 for the years ended June 30, 2024 and 2023.

Income Taxes: The Organization is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from state franchise tax under Revenue and Taxation Code Section 23701(d).

The Financial Accounting Standards Board ("FASB") has issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of June 30, 2024, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Leases: The Organization has adopted Accounting Standard codification (ASC) 842, Leases. For leases with a lease term greater than one year, the Organization recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Organization determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the accompanying statements of financial position.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (continued): Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Organization uses a risk-free rate of a period comparable with that of the lease term. The Organization considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Organization is reasonably certain to exercise the option, (2) terminate the lease if the Organization is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

New Accounting Pronouncements: In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were accounts receivable. The Organization adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 2. AVAILABILITY AND LIQUIDITY

The following table reflects the Organization's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 526,499	\$ 743,222
Grants and accounts receivable	473,996	195,019
Rents and trash districts fees receivable	6,949	46,327
Beneficial interest in assets held by others	53,547	51,173
Investments	<u>404,552</u>	<u>378,057</u>
 Total financial assets	 1,465,543	 1,413,798
 Less amounts not available to be used within one year:		
Subject to appropriation and satisfaction of donor restrictions	706,581	561,999
Donor designated endowment	<u>233,071</u>	<u>233,071</u>
 Financial assets not available to be used within one year	 <u>939,652</u>	 <u>795,070</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 525,891</u>	 <u>\$ 618,728</u>

The Organization regularly monitors liquidity required to meet its operating needs while also striving to maximize the investment of its available funds. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be met.

The Organization has a goal to maintain an operating reserve at a minimum of 3 months of average operating expenses. To achieve this target, the Organization forecasts its future cash flows, monitors its liquidity routinely and monitors its reserves at least annually. During the year ended June 30, 2024 and 2023, the level of liquidity and reserves was managed within the policy requirements.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 3. GRANTS RECEIVABLE

For the year ended June 30, grants receivable are collectible as follows:

	2024	2023
Receivable in less than one year	\$ 244,186	\$ 168,519
Receivable in one to five years	228,822	--
	<u>473,008</u>	<u>168,519</u>
Less: Discount to net present value	<u>(15,537)</u>	<u>--</u>
Total grants receivable	<u>\$ 457,471</u>	<u>\$ 168,519</u>

Long-term grants are recorded after discounting to the present value of future cash flows using a discount rate of 3%.

NOTE 4. CONCENTRATION OF CREDIT RISK

The Organization maintains balances in cash and interest-bearing deposit accounts at various financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss. Uninsured cash balances at June 30, 2024 totaled approximately \$163,517.

NOTE 5. CONCENTRATION OF REVENUE

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.

For the year ended June 30, 2024, approximately 82% of the Organization's total support came from five organizations. At June 30, 2024, a balance of \$414,359 was included in grants receivable from those organizations.

For the year ended June 30, 2023, approximately 56% of the Organization's total support came from three organizations. At June 30, 2023, a balance of \$88,649 was included in grants receivable from those organizations.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 6. EMPLOYEE BENEFIT PLAN

The Organization sponsors a tax-deferred annuity plan under Section 403(b) of the IRC. The plan covers all full-time employees of the Organization. The Organization has discretion to vary the contribution rate from year to year. For the year ended June 30, 2024 and 2023, the Organization made no contributions. Employees may make contributions to the plan up to the maximum amount allowed by the IRC if they wish.

NOTE 7. NET ASSETS WITHOUT DONOR RESTRICTIONS, BOARD DESIGNATED FUNDS

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

Operating Reserve Fund: During the year ended June 30, 2014, to establish an Operating Reserve Fund, the Board 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 fiscal years in annual increments of \$25,000. As of June 30, 2021, the designated operating reserve was \$200,000. The governing body released \$200,000 from the operating reserve to support near term operating cash flow in the year ended June 30, 2022. As of June 30, 2024 and 2023, the remaining designated operating reserve was \$0.

Facilities Reserve Fund: During the year ended June 30, 2014, the Board determined the need for a Facilities Reserve Fund and created a policy for funding. The Facility Reserve Fund was established at \$233,071. During the year ended June 30, 2017, the Board defunded a portion of the reserve leaving a remaining reserve of \$161,075. During the year ended June 30, 2019 the reserve was increased by \$40,000 to a balance of \$201,075. The governing body released \$58,000 from the facilities reserve due to capital replacements made in the year ended June 30, 2021. As of June 30, 2024 and 2023, the remaining designated facilities reserve was \$54,915 and \$143,075, respectively.

Publications Fund: The Organization has a Publications Fund for the purpose of setting aside funds for future publications. As of June 30, 2024 and 2023, the balance was \$30,733 and \$27,422, respectively.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Activity for donor restricted net assets, subject to expenditures for specified purposes or passage of time, at June 30, 2024, consisted of the following:

	Beginning 6/30/2023	Additions	Satisfied	Ending 6/30/2024
Exhibitions and programs	\$ 242,513	\$ 305,859	\$ 358,605	\$ 189,767
Subject to the passage of time	174,500	329,000	158,167	345,333
Donor-restricted endowments	233,071	--	--	233,071
Endowment accumulated earnings	144,986	43,294	16,799	171,481
	<u>\$ 795,070</u>	<u>\$ 678,153</u>	<u>\$ 533,571</u>	<u>\$ 939,652</u>

For the year ended June 30, 2023, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2022	Additions	Satisfied	Ending 6/30/2023
Evergreen Cemetery	\$ 150,316	\$ --	\$ 150,316	\$ --
Exhibitions and programs	334,609	184,500	276,596	242,513
Subject to the passage of time	273,333	34,000	132,833	174,500
Donor-restricted endowments	233,071	--	--	233,071
Endowment accumulated earnings	128,418	29,853	13,285	144,986
	<u>\$ 1,119,747</u>	<u>\$ 248,353</u>	<u>\$ 573,030</u>	<u>\$ 795,070</u>

Grants and contracts awarded to the Organization are subject to the funding agencies' criteria, contract terms, and regulations under which expenditures may be charged and are subject to audit under such terms, regulations, and criteria. The Organization could be held responsible for repayments to the funding agency for the questioned costs or be subject to the reductions of future funding in the amount of the questioned costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 9. LEASE COMMITMENT

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, 2013. 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 11) such use payment shall satisfy the rental payment obligation.

Rental payments, other than those to be satisfied by a use payment, were scheduled to commence September 1, 2021. The debt matured June 29, 2023. The Organization is requesting clarity from the County of Santa Cruz regarding the commencement date of rental payments and amending the agreement. In December 2024, subsequent to year-end, the Organization paid an agreed rental amount of \$56,634 for the 12 months ending June 30, 2024, representing 10% of net rent for the year ended June 30, 2024. Management considers it probable that a rental payment equal to 10% of net rent for the period from January 1, 2021, to June 30, 2023, will be deemed payable to Santa Cruz County. Accordingly, an additional liability of \$138,238 has been accrued as of June 30, 2024. The final amount and repayment timeline remain unconfirmed and are subject to ongoing discussions with the County.

The Organization leases a copier under a non-cancellable operating lease that expires March 31, 2029. Lease expense amounts to \$1,170 for the year ended June 30, 2024.

Other Information

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	975
ROU assets obtained in exchange for new operating lease liabilities	\$	10,876
Weighted-average remaining lease term in years for operating leases		4.75
Weighted-average discount rate for operating leases		4.11%

Maturity Analysis

		Operating
2025-06	\$	2,340
2026-06		2,340
2027-06		2,340
2028-06		2,340
2029-06		1,755
Thereafter		0
Total undiscounted cash flows		11,115
Less: present value discount		(999)
Total lease liabilities	\$	<u>10,116</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 10. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Amounts reported in the statement of financial position as beneficial interest in assets held by others represent the net cumulative transfers by the Organization to the Community Foundation Santa Cruz County (the "Foundation"), as well as earnings thereon. Funds are invested in a long-term portfolio of assets, which are valued at the net asset value ("NAV") of shares held by the Foundation at year end. The amount totaled \$53,547 and \$51,173 at June 30, 2024 and 2023, respectively. When the assets were transferred to the Foundation, the Organization granted variance power; thus, the Foundation has full authority and discretion as to the investment and reinvestment of the assets.

Distributions from the endowed agency funds are limited to an annual distribution. On an annual basis, the Foundation calculates the maximum allowable grant that can be distributed from the endowed funds limited to the extent that accumulated earnings are available. Other distributions may be made to the Organization only by a final determination made by the Board of Directors of the Foundation.

NOTE 11. NOTE PAYABLE

The Organization entered into a note payable with Santa Cruz County Bank on April 29, 2016. The note had a maturity date of June 29, 2023 and carried interest at 4.1% per annum. Monthly payments of principal and interest amounted to \$11,586. The loan was secured by a blank UCC-1 lien. Interest expense for the year ended June 30, 2023 was \$2,993. The note payable was fully paid off during the year ended June 30, 2023.

NOTE 12. REVOLVING LINE OF CREDIT

The Organization has an available revolving line of credit for \$250,000, secured with a blanket UCC-1 lien, with a maturity date of December 5, 2024. The reference rate (the Prime rate with an interest rate floor of 8.50%), is added to the margin of 1.000%, resulting in a rate of 9.50% as of June 30, 2024. As of June 30, 2024, there was a balance due of \$100,000 on the line. Subsequent to year end, the Organization had extended the maturity date to March 5, 2025.

NOTE 13. RENTAL INCOME

McPherson Center rental and trash service fees for the year ended June 30, consisted of the following:

	2024	2023
Rent	\$ 691,400	\$ 726,202
Operating costs charges	161,458	143,990
Trash district fees	135,022	143,855
	<u>\$ 987,880</u>	<u>\$ 1,014,047</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 13. RENTAL INCOME (Continued)

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

	Percent of Gross Base Rent	
	2024	2023
Tenant A	37%	36%
Tenant B	34%	34%
Tenant C	13%	13%

Minimum future rental receipts as of June 30 are due as follows:

2025	\$	503,698
2026		386,537
2027		<u>204,884</u>
	\$	<u>1,095,119</u>

NOTE 14. FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodology used for assets measured at fair value:

- Investments – Endowment Fund: Represents assets invested in a mix of funds in a brokerage account. Valuation is based on unadjusted quoted market prices for identical assets in active markets as of the measurement date.
- Interest in assets held at Community Foundation Santa Cruz County: Beneficial interests in assets held by the Foundation - are held in an investment pool (long-term portfolio), which are valued at the NAV of shares held by the Foundation at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment fund - exchange traded funds	<u>\$ 404,552</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 404,552</u>
Beneficial interest in assets held by others	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 53,547</u>	<u>\$ 53,547</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment fund - exchange traded funds	<u>\$ 378,057</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 378,057</u>
Beneficial interest in assets held by others	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 51,173</u>	<u>\$ 51,173</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30:

	2024	2023
Beginning balance	\$ 51,173	\$ 49,036
Distribution	(1,951)	(1,901)
Investment gain	4,843	4,534
Administration fees	<u>(518)</u>	<u>(496)</u>
Ending balance	<u>\$ 53,547</u>	<u>\$ 51,173</u>

NOTE 15. SELF-INSURED FOR UNEMPLOYMENT INSURANCE

The Organization is a member of the 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, 2024 and 2023, the Organization has \$7,408 deficit and \$1,079, respectively, on deposit with UST as a reserve to fund future claims. The Organization could be required to make additional payments if claims exceed the reserve account.

The Organization decided to return to the standard tax rated method in January 2025 and is currently in progress of setting up tax rated unemployment payroll processing. A payment is expected to be made to clear December 2024’s lower deficit of approximately \$4,700, which had reduced due to continuing payments made subsequent to June 30, 2024.

NOTE 16. RELATED PARTY TRANSACTIONS

Approximately \$15,891 and \$18,680 in donations were received from members of the Board of Directors during the year ended June 30, 2024 and 2023, respectively.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 17. PROPERTY, EQUIPMENT AND IMPROVEMENTS

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

	<u>Museum</u>	<u>McPherson Center</u>	<u>Trash District</u>	<u>Total 6/30/2024</u>
Building	\$ 3,790,732	\$ 4,194,120	\$ --	\$ 7,984,852
Building Improvements	434,449	1,415,246	--	1,849,695
Leasehold improvements	338,451	142,889	--	481,340
Land improvements	726,921	257,574	2,170	986,665
Furnishings & Fixtures	75,662	6,333	--	81,995
Equipment	296,294	23,844	39,417	359,555
Evergreen Cemetery	231,073	--	--	231,073
Davenport Jail	1,156	--	--	1,156
Octagon Building	--	139,864	--	139,864
	<u>5,894,738</u>	<u>6,179,870</u>	<u>41,587</u>	<u>12,116,195</u>
Less: Accumulated depreciation	<u>(4,298,905)</u>	<u>(3,463,306)</u>	<u>(41,587)</u>	<u>(7,803,798)</u>
	<u>\$ 1,595,833</u>	<u>\$ 2,716,564</u>	<u>\$ --</u>	<u>\$ 4,312,397</u>

Depreciation expense for the year ended June 30, 2024 totaled \$367,788.

	<u>Museum</u>	<u>McPherson Center</u>	<u>Trash District</u>	<u>Total 6/30/2023</u>
Building	\$ 3,789,437	\$ 4,194,120	\$ --	\$ 7,983,557
Building Improvements	434,449	1,415,246	--	1,849,695
Leasehold improvements	319,197	142,889	--	462,086
Land improvements	726,921	257,574	2,170	986,665
Furnishings & Fixtures	62,872	6,333	--	69,205
Equipment	278,004	23,844	39,417	341,265
Evergreen Cemetery	231,073	--	--	231,073
Davenport Jail	1,156	--	--	1,156
Octagon Building	--	139,864	--	139,864
	<u>5,843,109</u>	<u>6,179,870</u>	<u>41,587</u>	<u>12,064,566</u>
Less: Accumulated depreciation	<u>(3,507,923)</u>	<u>(3,886,500)</u>	<u>(41,587)</u>	<u>(7,436,010)</u>
	<u>\$ 2,335,186</u>	<u>\$ 2,293,370</u>	<u>\$ --</u>	<u>\$ 4,628,556</u>

Depreciation expense for the year ended June 30, 2023 totaled \$365,367.

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 18. ENDOWMENT FUND

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 held in perpetuity is included in with donor 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.

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board, 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's 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. Undistributed investment income, including market value increase in the fund, on the funds are classified as with donor restrictions.

Endowment Net Asset Composition: As of June 30, 2024 and 2023, amounts held in the endowment fund at fair value totaled \$404,552 and \$378,057, respectively. The endowment fund consisted of the following at June 30:

	2024	2023
Donor-restricted for general operations	\$ 233,071	\$ 233,071
Net unrealized gain, net of distributions	<u>171,481</u>	<u>144,986</u>
Ending balance	<u>\$ 404,552</u>	<u>\$ 378,057</u>

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

Notes to Financial Statements
Year Ended June 30, 2024 and 2023

NOTE 19. DEFERRED REVENUE

Deferred revenue at June 30, consisted of the following:

	2024	2023
Membership dues to be recognized as revenue over the membership period	\$ 29,736	\$ 38,063
Facility rental to be recognized when the event is held	<u>27,075</u>	<u>25,200</u>
	<u>\$ 56,811</u>	<u>\$ 63,263</u>

NOTE 20. CONTINGENCIES

The Organization recognizes commitments when it enters into executed contractual obligations with other parties and accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

The Organization received notice that a Serious and Willful Petition was filed by an employee at the Workers Compensation Appeals Board. The Organization anticipates additional information regarding the litigation within the first half year of 2025. At this point, it is too early to establish the extent of the litigation and potential liabilities, if any.

NOTE 21. EMPLOYEE RETENTION CREDIT

The Organization filed amended payroll tax returns and received \$453,850 from the Employee Retention Credit under The Coronavirus Aid, Relief, and Economic Security Act. The Employee Retention Credit was created by Congress to encourage employers to keep their employees on the payroll during the months in 2020 affected by the coronavirus pandemic. When initially introduced, this tax credit was worth 50% of qualified employee wages but limited to \$10,000 for any one employee, granting a maximum credit of \$5,000 for wages paid from March 13, 2020, to December 31, 2021. It was updated, increasing the percentage of qualified wages to 70% for 2021.

The per employee wage limit was increased from \$10,000 per year to \$10,000 per quarter. The amount received was recognized as revenue during the year ended June 30, 2023.

NOTE 22. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2024 and 2023 financial statements for subsequent events through February 12, 2025, the date of issuance of the financial statements. The Organization is not aware of any additional subsequent events that would require recognition or disclosure in the financial statements.