THE MUSEUM OF ART AND HISTORY
AT THE MCPHERSON CENTER

Financial Report

Years ended June 30, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 within one year after the date that the financial statements are available to be issued when applicable).

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.

Hutchinson and Bloodgood LLP

February 2, 2024

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

STATEMENT OF FINANCIAL POSITION
June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 336,264	$ 178,742	**$ 515,006**
Grants receivable, current	--	467,566	**467,566**
Accounts receivable	74,178	--	**74,178**
Rents and trash district fees receivable	53,289	--	**53,289**
Prepaid expenses	58,813	--	**58,813**
Inventories	29,858	--	**29,858**
Total current assets	552,402	646,308	**1,198,710**
PROPERTY, EQUIPMENT AND IMPROVEMENTS, net	4,827,613	--	**4,827,613**
OTHER ASSETS			
Investments	--	361,489	**361,489**
Unemployment insurance reserve	20,186	--	**20,186**
Grants receivable, net of discount	--	111,950	**111,950**
Straight-line rent receivable	84,983	--	**84,983**
Beneficial interest in assets held by others	49,036	--	**49,036**
Total other assets	154,205	473,439	**627,644**
Total assets	$ 5,534,220	$ 1,119,747	**$ 6,653,967**

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 73,771	$ --	**$ 73,771**
Accrued personal time off	50,631	--	**50,631**
Tenant deposits	30,125	--	**30,125**
Deferred revenue	81,343	--	**81,343**
Note payable	136,086	--	**136,086**
Total current liabilities	371,956	--	**371,956**
NET ASSETS			
Without donor restrictions			
Undesignated	304,092	--	**304,092**
Invested in property and equipment, net of related debt	4,691,527	--	**4,691,527**
Board designated - facilities reserve	143,075	--	**143,075**
Board designated - publications fund	23,570	--	**23,570**
Total net assets without donor restrictions	5,162,264	--	**5,162,264**
With donor restrictions			
Time and use restricted	--	886,676	**886,676**
Donor-restricted endowment	--	233,071	**233,071**
Total net assets with donor restrictions	--	1,119,747	**1,119,747**
Total net assets	5,162,264	1,119,747	**6,282,011**
Total liabilities and net assets	$ 5,534,220	$ 1,119,747	**$ 6,653,967**

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	1,990,240	(324,677)	**1,665,563**
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	424,532	--	**424,532**
Total revenue, support and other income	2,414,772	(324,677)	**2,090,095**
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	2,284,904	--	**2,284,904**
Increase (decrease) in net assets	129,868	(324,677)	**(194,809)**
Net assets, beginning	5,162,264	1,119,747	**6,282,011**
Net assets, ending	$ 5,292,132	$ 795,070	**$ 6,087,202**

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Revenue and other support:			
Contributions and grants	$ 444,509	$ 652,297	**$ 1,096,806**
Contributions Paycheck Protection Program (PPP)	68,928	--	**68,928**
Contracts Santa Cruz County historic preservation	154,594	--	**154,594**
Memberships	82,436	--	**82,436**
Museum admissions	106,221	--	**106,221**
Program service fees	183,944	--	**183,944**
Museum store sales	29,633	--	**29,633**
Interest and dividend income	10,288	--	**10,288**
Unrealized loss	(9,720)	(63,034)	**(72,754)**
Net assets released from restrictions	240,802	(240,802)	**--**
Total revenue and other support	1,311,635	348,461	**1,660,096**
Other income:			
McPherson Center rental and trash service	976,474	--	**976,474**
Expenses related to rents and trash service	(606,192)	--	**(606,192)**
Total other income	370,282	--	**370,282**
Total revenue, support and other income	1,681,917	348,461	**2,030,378**
EXPENSES			
Program services	1,591,652	--	**1,591,652**
Management and general	282,779	--	**282,779**
Fundraising	308,924	--	**308,924**
Total program and support services	2,183,355	--	**2,183,355**
Increase (decrease) in net assets	(501,438)	348,461	**(152,977)**
Net assets, beginning	5,663,702	771,286	**6,434,988**
Net assets, ending	$ 5,162,264	$ 1,119,747	**$ 6,282,011**

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

		Support Services				
	Program Services	Management and General	Fundraising	Total Support Services	McPherson Center	**Total**
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**
	1,496,792	379,178	408,934	788,112	589,515	**2,874,419**
Less expenses included with other income as expenses related to rents	--	--	--	--	(589,515)	**(589,515)**
	$ 1,496,792	$ 379,178	$ 408,934	$ 788,112	$ --	**$ 2,284,904**

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

		Support Services				
	Program Services	Management and General	Fundraising	Total Support Services	McPherson Center	**Total**
Personnel	$ 759,090	$ 179,965	$ 233,312	$ 413,277	$ 57,600	**$ 1,229,967**
Professional services	7,239	64,194	6,496	70,690	1,539	**79,468**
Administration and facility	126,870	24,436	24,156	48,592	347,424	**522,886**
Depreciation	250,462	2,556	2,556	5,112	124,917	**380,491**
Exhibitions and collections	311,541	--	--	--	--	**311,541**
Fundraising and memberships	--	--	19,757	19,757	--	**19,757**
Insurance	18,779	11,198	4,861	16,059	17,821	**52,659**
Interest	--	--	--	--	8,450	**8,450**
Programs	40,211	--	--	--	--	**40,211**
Museum store sales cost of goods sold	19,049	--	--	--	--	**19,049**
Marketing and promotion	58,411	113	17,786	17,899	--	**76,310**
Property taxes	--	317	--	317	48,441	**48,758**
	1,591,652	282,779	308,924	591,703	606,192	**2,789,547**
Less expenses included with other income as expenses related to rents	--	--	--	--	(606,192)	**(606,192)**
	$ 1,591,652	$ 282,779	$ 308,924	$ 591,703	$ --	**$ 2,183,355**

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

THE MUSEUM OF ART AND HISTORY AT THE MCPHERSON CENTER

STATEMENT OF CASH FLOWS
Years Ended June 30, 2023 and 2022

	2023	2022
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	**$ (194,809)**	$ (152,977)
Adjustments to reconcile decrease in net assets to cash provided (used) by operating activities		
Depreciation	**365,367**	380,491
Change in beneficial interest in assets held by others	**(2,137)**	6,838
Change in investments	**(25,770)**	63,034
Straight-line rental income	**(23,881)**	(28,958)
(Increase) decrease in:		
Accounts and grants receivable	**458,675**	(479,074)
Rents and trash district fees receivable	**6,962**	(36,172)
Prepaid expenses	**(51,731)**	70,291
Inventories	**(3,596)**	5,478
Unemployment insurance reserve	**19,107**	(15,700)
Increase (decrease) in:		
Accounts payable	**(8,709)**	(57,231)
Accrued personal time off	**(615)**	(5,849)
Tenant deposits	**627**	2,000
Deferred revenue	**(18,080)**	(9,560)
Refundable advance - PPP loan	**--**	(68,928)
Net cash provided (used) by operating activities	**521,410**	(326,317)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	**9,202**	25,701
Purchase of property and equipment	**(166,310)**	--
Net cash provided (used) by investing activities	**(157,108)**	25,701
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on note payable	**(136,086)**	(130,577)
Net increase (decrease) in cash and cash equivalents	**228,216**	(431,193)
Cash and Cash Equivalents, beginning	**515,006**	946,199
Cash and Cash Equivalents, ending	**$ 743,222**	$ 515,006
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	**$ 2,993**	$ 8,450

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

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 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%.
>
> 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").

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies: *S*ignificant 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 8.

- 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 doubtful accounts. As of June 30, 2023 and 2022, the Organization expects all rent and trash district fees to be collected.

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 doubtful accounts. 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 statements. 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.

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 $108,864 and $84,983 as of June 30, 2023 and 2022, respectively.

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 $22,403 and $33,204 for the years ended June 30, 2023 and June 30, 2022.

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, 2023, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

New Accounting Pronouncements: The Organization has adopted FASB Accounting Standard Codification (ASC 842), Leases, with a date of initial application of July 1, 2022. 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. As of June 30, 2023, the Organization has no operating leases with a duration greater than one year.

NOTE 2. AVAILABILITY AND LIQUIDITY

The following table reflects the Organization's financial assets as of June 30, 2023 and 2022, 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.

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	$ 743,222	$ 515,006
Grants and accounts receivable	195,019	653,694
Rents and trash districts fees receivable	46,327	53,289
Beneficial interest in assets held by others	51,173	49,036
Investments	378,057	361,489
Total financial assets	1,413,798	1,632,514
Less amounts not available to be used within one year:		
Subject to appropriation and satisfaction of donor restrictions	561,999	886,676
Donor designated endowment	233,071	233,071
Financial assets not available to be used within one year	795,070	1,119,747
Financial assets available to meet general expenditures within one year	$ 618,728	$ 512,767

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, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

NOTE 3. GRANTS RECEIVABLE

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

	2023	2022
Receivable in less than one year	$ 168,519	$ 467,566
Receivable in one to five years	--	118,768
	168,519	586,334
Less: Discount to net present value	--	(6,818)
Total grants receivable	$ 168,519	$ 579,516

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, 2023 totaled approximately $307,260.

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, 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.

For the year ended June 30, 2022, approximately 49% of the Organization's total support came from four organizations. At June 30, 2022, a balance of $398,768 was included in grants receivable from those organizations.

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, the remaining designated facilities reserve was $143,075.

Publications Fund: The Organization has a Publications Fund for the purpose of setting aside funds for future publications. As of June 30, 2023 and 2022, the balance was $27,422 and $23,570, respectively.

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, 2023, consisted of the following:

	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
	$ 1,119,747	$ 248,353	$ 573,030	$ 795,070

For the year ended June 30, 2022, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2021	Additions	Satisfied	Ending 6/30/2022
Evergreen Cemetery	$ 150,000	$ 2,500	$ 2,184	$ 150,316
Exhibitions and programs	79,168	339,797	84,356	334,609
Others	1,901	--	1,901	--
Subject to the passage of time	89,993	310,000	126,660	273,333
Donor-restricted endowments	233,071	--	--	233,071
Endowment accumulated earnings	217,153	(63,034)	25,701	128,418
	$ 771,286	$ 589,263	$ 240,802	$ 1,119,747

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.

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).

NOTE 9. LEASE COMMITMENT (Continued)

For any six-month period for which a use payment has been made (defined as a payment on the debt described in Note 12) 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. Management believes an agreement with the County of Santa Cruz may be reached requiring the Organization to set aside the rent owed to the County of Santa Cruz in an investment account to cover future improvements and maintenance costs for the McPherson Center. Management is currently working on determining a projected amount to set aside as board designated funds related to this.

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 $51,173 and $49,036 at June 30, 2023 and 2022, respectively. Those investments are not covered under FDIC, it is possible that the value of the investments and total net assets balance could fluctuate materially. The Foundation holds and invests the funds on behalf of the Organization. The Foundation has no variance power over the funds. The funds are distributed to the Organization upon request to 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 years ended June 30, 2023 and 2022 was $2,940 and $8,450, respectively. The note payable had a remaining balance of $136,086 as of June 30, 2022 and 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, 2023. The reference rate (the Prime rate with an interest rate floor of 8.00%), is added to the margin of 1.000%, resulting in a rate of 9.25% as of June 30, 2023. As of June 30, 2023, no balance is due on the line. Subsequent to year end, the Organization had extended the maturity date to December 5, 2024.

NOTE 13. RENTAL INCOME

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

	2023	2022
Rent	$ 726,202	$ 702,373
Operating costs charges	143,990	137,335
Trash district fees	143,855	136,766
	$ 1,014,047	$ 976,474

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

	Percent of Gross Base Rent	
	2023	2022
Tenant A	36%	38%
Tenant B	34%	31%
Tenant C	13%	13%

Minimum future rental receipts are due as follows:

2024	$ 685,496
2025	366,146
2026	246,326
2027	125,090
	$ 1,423,058

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).

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2023:

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

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2022:

	Level 1	Level 2	Level 3	Total
Endowment fund - exchange traded funds	$ 361,489	$ --	$ --	$ 361,489
Beneficial interest in assets held by others	$ --	$ --	$ 49,036	$ 49,036

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:

	2023	**2022**
Beginning balance	$ 49,036	$ 55,874
Distribution	(1,901)	(1,916)
Investment gain (loss)	4,534	(4,372)
Administration fees	(496)	(550)
Ending balance	$ 51,173	$ 49,036

NOTE 15. RELATED PARTY TRANSACTIONS

Approximately $18,680 and $18,469 in donations were received from members of the Board of Directors during the year ended June 30, 2023 and 2022, respectively.

NOTE 16. SELF-INSURED FOR UNEMPLOYMENT INSURANCE

The Organization is a member of the Unemployment Services Trust (“UST”) which enable 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, 2023 and 2022, the Organization has $1,079 and $20,186, 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.

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:

	Museum	McPherson Center	Total 6/30/2023
Office furniture	$ 69,125	$ 20,406	$ 89,531
Equipment	356,207	98,828	455,035
Museum store	68,625	--	68,625
Leasehold improvements	346,503	136,888	483,391
Land improvements	--	4,760	4,760
Evergreen Cemetery	231,073	--	231,073
Building use remodel	2,835,104	--	2,835,104
Museum building	3,721,658	--	3,721,658
McPherson Center Building			
Leasehold improvements			
Front Street Annex	--	4,175,389	4,175,389
	7,628,295	4,436,271	12,064,566
Less: Accumulated depreciation	(4,037,884)	(3,398,126)	(7,436,010)
	$ 3,590,411	$ 1,038,145	$ 4,628,556

Depreciation expense for the year ended June 30, 2023 totaled $365,367 and consisted of $255,574 included in expenses, and $109,794 included in expenses related to rents.

	Museum	McPherson Center	Total 6/30/2022
Office furniture	$ 59,126	$ 20,406	$ 79,532
Equipment	349,652	98,828	448,480
Museum store	68,625	--	68,625
Leasehold improvements	346,503	136,888	483,391
Land improvements	--	4,760	4,760
Evergreen Cemetery	81,317	--	81,317
Building use remodel	2,835,104	--	2,835,104
Museum building	3,721,658	--	3,721,658
McPherson Center Building			
Leasehold improvements			
Front Street Annex	--	4,175,389	4,175,389
	7,461,985	4,436,271	11,898,256
Less: Accumulated depreciation	(3,782,311)	(3,288,332)	(7,070,643)
	$ 3,679,674	$ 1,147,939	$ 4,827,613

NOTE 17. PROPERTY, EQUIPMENT AND IMPROVEMENTS (Continued)

Depreciation expense for the year ended June 30, 2022 totaled $380,491 and consisted of $255,574 included in expenses, and $124,917 included in expenses related to rents.

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, 2023 and 2022, amounts held in the endowment fund at fair value totaled $378,057 and $361,489, respectively. The endowment fund consisted of the following at June 30:

	2023	2022
Donor-restricted for general operations	$ 233,071	$ 233,071
Net unrealized gain, net of distributions	144,986	128,418
Ending balance	$ 378,057	$ 361,489

NOTE 19. DEFERRED REVENUE

Deferred revenue at June 30, consisted of the following:

	2023	2022
Membership dues to be recognized as revenue over the membership period	$ 38,063	$ 37,788
Facility rental to be recognized when the event is held	25,200	43,555
	$ 63,263	$ 81,343

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. Currently, the case is in the discovery phase. At this point, it is too early in the litigation and discovery stage to establish the extent of the litigation and potential liabilities, if any.

NOTE 21. PAYROLL PROTECTION PROGRAM AND EMPLOYEE RETENTION CREDIT

Payroll Protection Program: The Organization received its second Payroll Protection Program (“PPP”) funding of $220,570 in February 11, 2021. The terms of the funding agreement indicated that the Organization must utilize the proceeds to fund/offset qualifying expenses over a twenty-four-week period. The terms of the agreement specified that the Organization must repay the principal of the loan back plus interest, which accrued at 1% semi-annually and matured in two years. The loan may be forgiven if the Organization fulfills the agreed to terms. When it applied for the loan, the Organization believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be substantively a conditional government grant. The loan was forgiven in September 2021. To the extent qualifying expenses were incurred, $151,642 and $68,928 was recognized as income in the statements of activities during the years ended June 30, 2021 and 2022, respectively.

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.

NOTE 21. PAYROLL PROTECTION PROGRAM AND EMPLOYEE RETENTION CREDIT (Continued)

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, 2023 and 2022 financial statements for subsequent events through February 2, 2024, the date of issuance of the financial statements. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.