



**CITY OF PACIFIC GROVE**  
300 Forest Avenue, Pacific Grove, California 93950  
**AGENDA REPORT**

**TO:** City Council

**FROM:** John Pearse, Museum Board Chair

**MEETING DATE:** February 3, 2016

**SUBJECT:** Museum Board transmittal of *2014-2015 Financial Statements with Independent Auditors' Report, June 30 2015 and 2014*

**CEQA** This does not constitute a "project" under California Environmental Quality Act (CEQA) guidelines.

**RECOMMENDATION**

No action necessary; Council is receiving the report only.

**DISCUSSION**

In compliance with Section 5.09 (a) of the Lease and Operating Agreement between the Pacific Grove Museum of Natural History and the City of Pacific Grove, the Museum annually provides a copy of audited financial statements for the most recent fiscal year, ending June 30.

The Museum Board has reviewed the statements for 2014-2015 (Titled "*Financial Statements with Independent Auditors' Report, June 30 2015 and 2014*").

The Board notes that auditors issued a clean report.

**OPTIONS**

1. Request additional actions by the Museum Foundation, the Museum Board, or staff.

**FISCAL IMPACT**

None.

**ATTACHMENTS**

1. The Pacific Grove Museum of Natural History *Financial Statements with Independent Auditors' Report, June 2015 and 2014*

**RESPECTFULLY SUBMITTED,**

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John Pearse, Chair  
Museum Board



Museum Foundation of Pacific Grove, Inc.  
dba Pacific Grove Museum of Natural History

Financial Statements  
With Independent Auditors' Report

June 30, 2015 and 2014

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.  
dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Museum Foundation of Pacific Grove, Inc.  
dba Pacific Grove Museum of Natural History  
Pacific Grove, California

We have audited the accompanying financial statements of Museum Foundation of Pacific Grove, Inc. dba Pacific Grove Museum of Natural History (a California nonprofit public benefit corporation) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Museum Foundation of Pacific Grove, Inc. dba Pacific Grove Museum of Natural History as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other-Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*PMB Helin Donovan, LLP*

PMB Helin Donovan, LLP  
Carmel, California  
December 17, 2015

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.  
dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 547,698	\$ 351,454
Accounts receivable	100,415	55,547
Grants receivable	79,268	250,000
Prepaid expenses	3,360	3,139
Inventory	8,425	10,262
	<hr/>	<hr/>
Total current assets	739,166	670,402
<b>BENEFICIAL INTEREST IN ASSETS HELD AT COMMUNITY FOUNDATION</b>	316,188	334,030
<b>HELEN JOHNSON MONARCH ENDOWMENT FUND</b>	808,068	-
<b>PROPERTY AND EQUIPMENT, net</b>	218,412	75,363
	<hr/>	<hr/>
Total assets	<u>\$ 2,081,834</u>	<u>\$ 1,079,795</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,570	\$ 19,556
Accrued expenses	47,822	38,719
	<hr/>	<hr/>
Total current liabilities	56,392	58,275
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Unrestricted	770,499	779,771
Temporarily restricted	446,943	241,749
Permanently restricted	808,000	-
	<hr/>	<hr/>
Total net assets	2,025,442	1,021,520
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,081,834</u>	<u>\$ 1,079,795</u>

The notes are an integral part of these financial statements.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 164,398	\$ 19,806	\$ -	\$ 184,204	\$ 63,451	\$ 216,735
State and local funding	169,000	-	-	169,000	167,437	-
Grants	113,546	380,642	808,000	1,302,188	97,634	328,750
Special events, net of expenses \$13,500 in 2015 and \$16,372 in 2014	(6,723)	-	-	(6,723)	3,951	-
Museum admissions	45,130	-	-	45,130	-	-
Store sales	27,680	-	-	27,680	24,802	-
Tuition revenue	35,627	-	-	35,627	27,666	-
Miscellaneous income	25,731	-	-	25,731	10,654	-
Interest income	207	68	-	275	191	-
Change in value of beneficial interest in assets held at community foundation	(3,105)	-	-	(3,105)	44,847	-
Net assets released from restrictions	195,322	(195,322)	-	-	379,130	(379,130)
Total support and revenue	766,813	205,194	808,000	1,780,007	819,763	166,355
<b>EXPENSES</b>						
Program services	501,426	-	-	501,426	444,143	-
Management and general	173,219	-	-	173,219	203,725	-
Development	101,440	-	-	101,440	74,298	-
Total expenses	776,085	-	-	776,085	722,166	-
<b>CHANGE IN NET ASSETS</b>	(9,272)	205,194	808,000	1,003,922	97,597	166,355
<b>NET ASSETS</b>						
Beginning of year	779,771	241,749	-	1,021,520	682,174	75,394
End of year	\$ 770,499	\$ 446,943	\$ 808,000	\$2,025,442	\$ 779,771	\$ 241,749

The notes are an integral part of these financial statements.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.  
dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,003,922	\$ 263,952
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Depreciation	17,082	15,050
Change in value of beneficial interest in assets held at community foundation	3,105	(44,847)
Change in operating assets and liabilities		
Accounts receivable	(44,868)	(45,572)
Grants receivable	170,732	(250,000)
Prepaid expenses	(221)	(3,139)
Inventory	1,837	1,013
Accounts payable	(10,986)	19,486
Accrued expenses	9,103	4,373
Net cash provided (used) by operating activities	<u>1,149,706</u>	<u>(39,684)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities	(808,068)	-
Distribution of beneficial interest in assets held at community foundation	14,737	15,135
Purchases of property	<u>(160,131)</u>	<u>(1,836)</u>
Net cash provided (used) by investing activities	<u>(953,462)</u>	<u>13,299</u>
Net change in cash	196,244	(26,385)
<b>CASH</b>		
Beginning of year	<u>351,454</u>	<u>377,839</u>
End of year	<u><u>\$ 547,698</u></u>	<u><u>\$ 351,454</u></u>

The notes are an integral part of these financial statements.



**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 1 – NATURE OF OPERATIONS**

The Museum Foundation of Pacific Grove, Inc. dba Pacific Grove Museum of Natural History (Foundation), a California nonprofit public benefit corporation, was formed on October 3, 2008 to operate, manage and care for and use the collections of the Pacific Grove Museum of Natural History (Museum), owned by the City of Pacific Grove (City), for the benefit of the City, its residents and visitors, and the users of the Museum. Revenues for the Foundation are derived mainly from the City based upon an operating agreement, and donations.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting and presentation** – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

**Description of net assets** – The Foundation reports information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

***Unrestricted net assets*** – Net assets that are not subject to donor-imposed stipulations.

***Temporarily restricted net assets*** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired. These reclassifications are reported in the statements of activities as net assets released from restrictions.

***Permanently restricted net assets*** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Income from permanently restricted net assets is generally subject to donor-imposed stipulations and is considered temporarily restricted until restrictions are met.

**Use of estimates** – Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include the fair value of beneficial interest in net assets of community foundation and the depreciable lives of property and equipment.

**Cash** – Cash includes cash on hand and bank checking accounts. Cash on deposit occasionally exceeds federally insured limits. The Foundation believes it mitigates the risk of concentration by depositing at major financial institutions. The Foundation has not experienced any losses in such accounts.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Inventory** – Inventory is valued at the lower of cost or market, except for donated inventory which is recorded at fair value on the date received. Cost is determined by the first-in, first-out method.

**Grants receivable** – Grants receivable consist of amounts that have been promised to the Foundation but have not yet been paid. They are stated at the amount management expects to collect from balances outstanding. Management closely monitors outstanding balances throughout the year, and writes off all balances that are considered uncollectible. All balances are due within one year and are considered collectible at June 30, 2015.

**Beneficial interest in assets held at community foundation** – The Foundation has a stewardship fund held and administered by the Community Foundation for Monterey County, (Community Foundation) with the acquisition of the Pacific Grove Natural History Museum Association on July 1, 2010. Under the terms of the agreement, the Foundation has the right to receive distributions from the fund made at the request of the Foundation's board of directors. The fair value of the beneficial interest was recognized as an asset and a contribution at the date it was acquired. The assets of the fund are not subject to the control or direction of the Foundation. Gains and losses, which are not distributed, are reflected as change in value of beneficial interest in assets held at community foundation.

**Property and equipment, net** – The City owns the Museum and the related property, plant and equipment. The Foundation purchases certain tangible assets to support managing the facility. The City has reversionary rights to facility improvements and exhibitions purchased by the Foundation.

Property and equipment purchased are recorded at cost and donated property and equipment are recorded at estimated fair value on the date contributed to the Foundation. Assets donated with explicit restrictions regarding their use and contributions of cash that are restricted to property and equipment purchases are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are in their specified service, at which time the temporarily restricted net assets are reclassified as unrestricted. Additions to property and equipment in excess of \$1,000 with an estimated useful life of greater than one year are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets ranging from three to seven years.

**Museum Collection** – The Museum Collection (Collection) is comprised of artifacts owned by the City and therefore, the Collection is not recognized as assets on the Foundation's statement of financial position. The Collection refers to all artifacts owned by the City and maintained at the Museum, as identified in the Collection survey conducted in February 2010, including those exhibited, stored and located within the City's Point Pinos Lighthouse. All collection items which are acquired by the Foundation through purchases and contributions since the Foundation's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in net assets in the year in which the items are acquired. Contributed collection items are not reflected on the financial statements. Proceeds from decisions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Collection is protected and cared for in accordance with the Museum's management policy.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Donated services and materials** – The Foundation may receive services, equipment and material without payment or compensation. When the value of such contributions is ascertainable and meets the criteria for recognition in the statement of activities, it is reflected in the accompanying financial statements as revenue and expense. Donated services are recorded if such services create or enhance nonfinancial assets or require specialized skills and are so essential that they would be purchased if not provided by donation. Materials and other noncash donations are recorded at estimated fair value determined at the date of donation. Donations of services and materials for special events aggregated \$6,777 and \$7,463 for the years ended June 30, 2015 and 2014, respectively. Donations of materials for programs and management and general aggregated \$0 for the years ended June 30, 2015 and 2014.

Volunteers donated hours to the Foundation during the period, however, these donated services are not reflected in the financial statements since the services do not require specialized skills as specified by accounting standards for recognition.

**Financial instruments** – Financial instruments included in the Foundation's statements of financial position include cash, beneficial interest in assets held at community foundation, accounts payable and accrued expenses. For cash, accounts payable and accrued expenses, the carrying amounts represent a reasonable estimate of the corresponding fair values. Beneficial interest in assets held at community foundation and the Helen Johnson Monarch Fund are reflected in the accompanying balance sheets at their estimated fair values using methodologies described below.

**Fair value measurements** – Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Foundation considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

The three-level hierarchy for fair value measurements is defined as follows.

**Level 1** – Valuation is based on observable inputs using quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

**Level 2** – Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not active or valuation methods using models, interest rates and yield curves as observable inputs.

**Level 3** – Valuation is based on unobservable inputs for the assets, reflecting the Foundation's consideration about the assumptions that a market participant would use in pricing the asset or liability, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets and liabilities include situations where there is little or no market activity for the asset or liabilities, and significant management judgment or estimates are required.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Beneficial interest in assets held at community foundation are classified as Level 2 because they are valued using quoted prices in active markets, however, the Foundation records their allocated share of the values based on the statements received from the Community Foundation.

During the current year, the Foundation received funds from a bequest that were permanently restricted. The funds received were classified as Level 1 and Level 3. Level 1 assets represent funds received and held in a temporary cash account with an investment advisor. The funds were deposited just prior to year end and will be invested as determined by the Foundation investment policy. The Foundation received shares in InvenTrust Properties Corporation as the remainder of the bequest. The shares are classified as Level 3. The shares are classified as Level 3 since observable inputs are minimal. Refer to Note 3 below.

While the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets and liabilities existed, or had such assets and liabilities been liquidated, and these differences could be material to the financial statements.

**Revenue recognition** – Contributions received are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair values. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received that are designated for future periods or restricted by the donor or grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports that support as unrestricted.

**Functional expense allocation** – The costs of providing program services and other activities have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Advertising costs** – Advertising costs are expensed as incurred. Advertising expenses were \$11,087 and \$7,312 for the years ended June 30, 2015 and 2014, respectively.

**Income tax status** – The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code but is subject to taxes on unrelated business income when earned.

The Foundation has adopted the provisions related to accounting for uncertainty in income taxes, which defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation's management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 3 – INVESTMENTS AND FAIR VALUE DISCLOSURES**

The following tables present the fair value of investments on the accompanying statements of financial position, as of June 30, 2015 by fair value hierarchy.

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
UBS cash accounts	\$ 748,000	\$ -	\$ -	\$ 748,000
InvenTrust Properties	-	-	60,000	60,000
	<u>\$ 748,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 808,000</u>

During the current year, the Foundation received a bequest to establish a permanent endowment. The bequest was received just prior to year end. The Foundation established an investment account with a financial advisor at UBS Financial Services, Inc (UBS). The amount classified as Level 1 represents cash on deposit with UBS. The level 3 investment represents shares received to close out the bequest in InvenTrust Properties Corporation. These shares were received on June 30, 2015. The shares represent ownership in real estate assets transferred to the Foundation. These shares are valued by the corporation and are not currently traded on a national securities exchanges. The Foundation is working with their investment advisor to liquidate these shares.

**NOTE 4 – BENEFICIAL INTEREST IN ASSETS HELD AT COMMUNITY FOUNDATION AND FAIR VALUE DISCLOSURES**

The Museum has established a stewardship fund with the Community Foundation for the benefit of the Museum. The Museum granted variance power to the Community Foundation, thus the Community Foundation has full authority and discretion as to the investment and reinvestment of the assets.

The following tables present the fair value of beneficial interest in assets held at Community Foundation on the accompanying statements of financial position, as of June 30, by fair value hierarchy.

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held at Community Foundation	\$ -	\$ 316,188	\$ -	\$ 316,188
<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held at Community Foundation	\$ -	\$ 334,030	\$ -	\$ 334,030

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 5 – FUNDS HELD AT COMMUNITY FOUNDATION**

The Community Foundation holds an endowment fund in which the Foundation has been designated as the income beneficiary. The Foundation does not have variance power over this fund and thus the assets in the fund are not included in the Foundation's financial statements. The balance in this account was \$130,479 and \$141,612 as of June 30, 2015 and 2014, respectively. The income distribution from the fund to the Foundation amounted to \$9,846 and \$7,054 for the years ended June 30, 2015 and 2014, respectively, and is reported in contributions in the accompanying statements of activities and changes in net assets.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30.

	<u>2015</u>	<u>2014</u>
Improvements	\$ 69,221	\$ 69,221
Equipment	39,720	33,029
Furniture and fixtures	12,989	12,989
Exhibits	95,667	19,181
Construction in progress	76,954	-
Website	<u>4,250</u>	<u>4,250</u>
	298,801	138,670
Accumulated depreciation	<u>(80,389)</u>	<u>(63,307)</u>
	<u>\$ 218,412</u>	<u>\$ 75,363</u>

Depreciation expense was \$17,082 and \$15,050 for the years ended June 30, 2015 and 2014, respectively.

**NOTE 7 – ACCRUED EXPENSES**

Accrued expenses consist of the following as of June 30.

	<u>2015</u>	<u>2014</u>
Accrued sales tax	\$ 337	\$ 468
Accrued wages	16,331	13,434
Accrued compensated absences	<u>31,154</u>	<u>24,817</u>
	<u>\$ 47,822</u>	<u>\$ 38,719</u>

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
**dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30.

	<u>2015</u>	<u>2014</u>
LIMPETS	\$ 42,084	\$ 5,353
Adopt A Bird	7,185	500
Special exhibitions	972	4,500
Monarch sanctuary	10,423	-
Helen Johnson Monarch Fund – income	68	-
Permanent exhibitions		
Butterfly experiences	7,907	7,907
Monarch gallery	23,022	28,552
Butterfly pavilion	354,687	192,437
First inhabitants	<u>595</u>	<u>2,500</u>
	<u>\$ 446,943</u>	<u>\$ 241,749</u>

**NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of June 30, 2015 of \$808,000 is restricted in perpetuity, the income from this fund is expendable to support the monarch education program and to support the creation, operation and maintenance of the Butterfly Pavilion.

**NOTE 10 – ENDOWMENT FUND**

The Foundation's endowment includes a donor-restricted endowment fund to support the monarch education program and to support the creation, operation and maintenance of the Butterfly Pavilion.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Education Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.  
dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 10 – ENDOWMENT FUND**      *(continued)*

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets with the objective of ultimately providing a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that, at a minimum, maintains the purchasing power of the original Endowment corpus and shall be consistent with: i) the risk deemed appropriate by the Investment Committee; ii) the mission and programs of the Foundation, and iii) the projected cash needs of the Foundation which may require a constant and reliable flow of income to the annual operating budget.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation will determine an annual spending rate based on the average fair market value of the endowed assets. Over the long term, the Foundation expects the current spending policy to allow its endowment to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.



**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 10 – ENDOWMENT FUND**      *(continued)*

Endowment net assets composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds				
Cash - restricted (level 1)	\$ -	\$ 68	\$ 748,000	\$ 748,068
InvenTrust Properties (level 3)	-	-	60,000	60,000
Total endowment funds at 6/30/15	<u>\$ -</u>	<u>\$ 68</u>	<u>\$ 808,000</u>	<u>\$ 808,068</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at 6/30/14	\$ -	\$ -	\$ -	\$ -
Contribution			808,000	808,000
Investment return				
Interest and dividends	-	68	-	68
Net appreciation (realized and unrealized)	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets at 6/30/15	<u>\$ -</u>	<u>\$ 68</u>	<u>\$ 808,000</u>	<u>\$ 808,068</u>

**NOTE 11 – OPERATING AGREEMENT AND LEASE**

An operating agreement and lease (Agreement) was signed by the Foundation and the City and accepted by the city council on June 29, 2009. The Agreement was amended on July 29, 2010 and then again on August 8, 2010. It is further amended effective May 21, 2014. The Agreement states that responsibility for management of the Museum was transferred to the Foundation on August 1, 2009 for a term of thirty years and eleven months ending June 30, 2040. Commencing on June 30, 2010 and continuing on June 30<sup>th</sup> of each year of the term thereafter, the term shall be extended by one year; provided, that either party may, in its sole discretion, give written notice to the other party, not later than thirty days prior to June 30<sup>th</sup> of any term year that it wishes to terminate the automatic one year extension provided for above, in which case the term of this Agreement shall be fixed at thirty years from the end of the term year in which such notice is given. Under the Agreement, the City retains ownership of the Museum facility and the Collection. The City also retains responsibility for major repairs and maintenance of the facility and for basic maintenance and janitorial services. In addition, the City has agreed to make an annual contribution to the Foundation to assist with Museum operating costs which is included as state and local funding on the statement of activities and changes in net assets. The Foundation will be responsible for all Museum operations including managing the Collection, developing new Museum exhibits, both permanent and special, planning and conducting educational and scientific programs and special events.

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.**  
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**NOTE 12 – ECONOMIC DEPENDENCY**

Approximately \$169,000 and \$170,000 or 9% and 17% of the Foundation's total support and revenues were provided by the City for the years ended June 30, 2015 and 2014, respectively.

Approximately \$808,000 and \$330,000 or 45% and 33% of the Foundation's total support and revenues were provided by one donor as of June 30, 2015 and 2014, respectively.

**NOTE 13 – SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through December 17, 2015, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**MUSEUM FOUNDATION OF PACIFIC GROVE, INC.  
dba PACIFIC GROVE MUSEUM OF NATURAL HISTORY**

**SCHEDULES OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015				2014			
	Supporting Services		Supporting Services		Supporting Services		Supporting Services	
	Program Services	Management and General	Development	Total	Program Services	Management and General	Development	Total
<b>EXPENSES</b>								
Salaries and payroll related	\$ 307,290	\$ 129,389	\$ 79,051	\$ 515,730	\$ 277,483	\$ 69,909	\$ 34,292	\$ 381,684
Exhibit	30,048	-	-	30,048	17,672	1,165	105	18,942
Professional services	27,075	7,556	4,854	39,485	67,035	35,816	33,168	136,019
Transportation	13,921	1,901	-	15,822	11,482	-	-	11,482
Cost of sales	17,647	-	-	17,647	13,924	-	-	13,924
Supplies	6,471	2,097	1,347	9,915	855	8,768	-	9,623
Printing and copying	4,010	4,057	493	8,560	5,658	2,287	58	8,003
Equipment	7,529	599	384	8,512	3,807	1,130	-	4,937
Utilities	11,184	4,585	2,945	18,714	-	15,931	-	15,931
Depreciation	10,209	4,185	2,688	17,082	-	15,050	-	15,050
Information technology	12,215	3,130	2,011	17,356	3,862	9,828	800	14,490
Advertising and marketing	10,097	603	388	11,088	4,320	2,136	856	7,312
Telephone	4,053	1,661	1,067	6,781	1,577	9,347	-	10,924
Postage	1,088	389	1,835	3,312	2,941	969	1,068	4,978
Travel	1,166	1,335	771	3,272	14,351	1,109	1,415	16,875
Insurance	9,053	3,711	2,384	15,148	-	19,186	-	19,186
Hospitality	4,359	-	-	4,359	5,489	498	146	6,133
Other	2,632	2,019	-	4,651	923	209	83	1,215
Background checks	-	2,044	-	2,044	1,319	123	-	1,442
Teacher workshops	3,104	-	-	3,104	1,925	-	-	1,925
Repairs and maintenance	11,836	759	487	13,082	6,968	4,362	-	11,330
Dues and subscriptions	3,921	614	395	4,930	633	1,632	2,120	4,385
Bank and credit card fees	691	2,056	-	2,747	490	2,105	187	2,782
Professional development	1,827	529	340	2,696	1,429	2,165	-	3,594
<b>Total expenses</b>	<b>\$ 501,426</b>	<b>\$ 173,219</b>	<b>\$ 101,440</b>	<b>\$ 776,085</b>	<b>\$ 444,143</b>	<b>\$ 203,725</b>	<b>\$ 74,298</b>	<b>\$ 722,166</b>

The notes are an integral part of these financial statements.