

MONTEREY MUSEUM OF ART

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2020

AND INDEPENDENT AUDITORS' REPORT

MONTEREY MUSEUM OF ART

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HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Monterey Museum of Art
Monterey, California**

Report on the Financial Statements

We have audited the accompanying financial statements of *Monterey Museum of Art* (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Monterey Museum of Art** as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **Monterey Museum of Art's** 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hayashi Wayland, LLP

March 4, 2021
Salinas, California



MONTEREY MUSEUM OF ART
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)

<u>ASSETS</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
CURRENT ASSETS:				
Cash	\$ 239,537	\$ 309,686	\$ 549,223	\$ 259,917
Other receivables	-	-	-	49,598
Grants receivable	-	-	-	125,000
Pledges receivable, net, current portion	-	194,812	194,812	-
Current portion of unconditional promise to give – use of building – net	-	61,765	61,765	61,765
Prepaid expenses	-	-	-	15,157
Inventory	<u>316</u>	<u>-</u>	<u>316</u>	<u>4,926</u>
Total current assets	<u>239,853</u>	<u>566,263</u>	<u>806,116</u>	<u>516,363</u>
PROPERTY – NET	<u>3,555,904</u>	<u>-</u>	<u>3,555,904</u>	<u>1,286,124</u>
OTHER ASSETS:				
Pledges receivable, net, less current portion	-	453,908	453,908	-
Unconditional promise to give – use of building – net	-	571,087	571,087	594,772
Investments	2,283,249	4,333,649	6,616,898	7,045,689
Investments – restricted	307,574	-	307,574	302,264
Community Foundations	<u>68,941</u>	<u>-</u>	<u>68,941</u>	<u>71,756</u>
Total other assets	<u>2,659,764</u>	<u>5,358,644</u>	<u>8,018,408</u>	<u>8,014,481</u>
TOTAL ASSETS	<u>\$ 6,455,521</u>	<u>\$ 5,924,907</u>	<u>\$12,380,428</u>	<u>\$ 9,816,968</u>

See Notes to Financial Statements.

MONTEREY MUSEUM OF ART
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)
(Continued)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable	\$ 33,242	\$ –	\$ 33,242	\$ 33,676
Accrued vacation	45,815	–	45,815	42,186
Refundable advance	197,800	–	197,800	–
Current portion of capital lease	6,523	–	6,523	5,861
Total current liabilities	<u>283,380</u>	<u>–</u>	<u>283,380</u>	<u>81,723</u>
LONG-TERM DEBT	<u>720,576</u>	<u>–</u>	<u>720,576</u>	<u>7,099</u>
Total liabilities	<u>1,003,956</u>	<u>–</u>	<u>1,003,956</u>	<u>88,822</u>
NET ASSETS:				
Without donor restrictions:				
Undesignated	5,382,624	–	5,382,624	4,390,046
Board designated	68,941	–	68,941	71,756
Total without donor restrictions	<u>5,451,565</u>	<u>–</u>	<u>5,451,565</u>	<u>4,461,802</u>
With donor restrictions:				
Purpose or time restricted	–	2,911,813	2,911,813	2,253,250
Donor restricted endowment	–	3,013,094	3,013,094	3,013,094
Total with donor restrictions	<u>–</u>	<u>5,924,907</u>	<u>5,924,907</u>	<u>5,266,344</u>
Total net assets	<u>5,451,565</u>	<u>5,924,907</u>	<u>11,376,472</u>	<u>9,728,146</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,455,521</u>	<u>\$ 5,924,907</u>	<u>\$12,380,428</u>	<u>\$ 9,816,968</u>

See Notes to Financial Statements.

MONTEREY MUSEUM OF ART
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE AND SUPPORT:				
Revenue:				
Program revenue	\$ 48,457	\$ –	\$ 48,457	\$ 115,316
Facility fees	(610)	–	(610)	12,226
Investment return - net	87,169	148,286	235,455	551,565
Community Foundation income (loss)	1,124	–	1,124	2,968
Other income	5,560	–	5,560	1,349
Grant income – Marble Endowment	408,203	–	408,203	401,434
Total revenue	<u>549,903</u>	<u>148,286</u>	<u>698,189</u>	<u>1,084,858</u>
Support:				
Foundation grants	54,523	308,330	362,853	229,085
Special events	197,759	–	197,759	490,576
Contributions	329,135	2,207,526	2,536,661	392,990
In-kind	44,755	–	44,755	112,218
Net assets released from restrictions	2,005,579	(2,005,579)	–	–
Total support	<u>2,631,751</u>	<u>510,277</u>	<u>3,142,028</u>	<u>1,224,869</u>
Total revenue and support	<u>3,181,654</u>	<u>658,563</u>	<u>3,840,217</u>	<u>2,309,727</u>
EXPENSES:				
Program services:				
Museum	860,509	–	860,509	1,003,252
Retail	34,087	–	34,087	74,874
Education	395,660	–	395,660	406,086
Supporting services:				
Management and general	480,251	–	480,251	348,681
Development	421,384	–	421,384	564,053
Total expenses	<u>2,191,891</u>	<u>–</u>	<u>2,191,891</u>	<u>2,396,946</u>
CHANGE IN NET ASSETS	989,763	658,563	1,648,326	(87,219)
NET ASSETS, BEGINNING OF YEAR	<u>4,461,802</u>	<u>5,266,344</u>	<u>9,728,146</u>	<u>9,815,365</u>
NET ASSETS, END OF YEAR	<u>\$ 5,451,565</u>	<u>\$ 5,924,907</u>	<u>\$11,376,472</u>	<u>\$ 9,728,146</u>

See Notes to Financial Statements.

MONTEREY MUSEUM OF ART
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	PROGRAM SERVICES			SUPPORTING SERVICES		2020 Total	2019 Total
	Museum	Retail	Education	Management and General	Development		
Salaries	\$ 317,556	\$ 11,378	\$ 225,131	\$ 107,764	\$ 243,466	\$ 905,295	\$ 872,191
Employee benefits	28,333	1,016	20,086	9,449	21,722	80,606	80,297
Payroll taxes	26,761	967	17,974	7,291	17,984	70,977	67,226
Advertising and promotion	17,113	-	3,051	2,110	4,583	26,857	23,964
Art purchases	70,203	-	-	-	-	70,203	289,451
Bad debt	-	-	-	-	16,700	16,700	-
Bank charges	142	1,320	536	4,886	3,682	10,566	13,672
Board expenses	-	-	-	2,186	-	2,186	1,800
Conservation	27,943	-	-	-	-	27,943	8,044
Professional services	-	-	-	190,536	-	190,536	141,905
Costs of goods sold	-	5,996	-	3,750	-	9,746	31,744
Depreciation	106,215	5,590	37,268	18,635	18,634	186,342	155,753
Donor cultivation	-	-	-	717	1,651	2,368	10,244
Dues and subscriptions	2,915	-	-	6,008	2,334	11,257	8,497
Education supplies	-	-	36,229	2,137	8,015	46,381	12,057
Exhibit expense	42,358	-	-	81	919	43,358	135,013
In-kind expenses	-	-	-	-	-	-	72,841
In-kind rent	61,765	-	-	-	-	61,765	61,765
Insurance	50,428	2,654	17,694	8,846	8,848	88,470	70,326
Interest	-	-	-	6,440	-	6,440	2,797
Legal	-	-	-	4,339	-	4,339	6,009
Licenses/permits	-	-	-	655	-	655	3,303
Maintenance/repairs	46,613	575	3,838	1,921	1,918	54,865	48,982
Office expense	93	2	190	18,307	492	19,084	20,935
Office/computer services	-	1,829	-	35,332	2,477	39,638	31,412
Printing/Postage	5,207	-	2,156	15,756	20,988	44,107	43,929
Professional development	-	-	-	839	177	1,016	4,243
Property tax	-	-	-	6,697	-	6,697	10,001
Public programs	423	-	500	455	678	2,056	21,919
Sales tax expense	-	118	-	888	-	1,006	2,831
Telephone	15,094	794	5,296	2,649	2,648	26,481	30,744
Travel	170	-	154	7,893	1,743	9,960	44,763
Utilities	35,105	1,848	12,317	6,159	6,158	61,587	68,288
Vendor services/security	6,072	-	13,240	7,525	35,567	62,404	-
Total expenses	\$ 860,509	\$ 34,087	\$ 395,660	\$ 480,251	\$ 421,384	\$ 2,191,891	\$ 2,396,946

See Notes to Financial Statements

MONTEREY MUSEUM OF ART
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	\$ 989,763	\$ 658,563	\$ 1,648,326	\$ (87,219)
Adjustments to reconcile – change in net assets to net cash provided (used) by operations:				
Depreciation	186,342	–	186,342	155,753
Amortization of discount on promise to give	–	23,685	23,685	22,387
Realized and unrealized (gain) loss on investments	(50,617)	(99,825)	(150,442)	(412,877)
Realized and unrealized (gain) loss on Community Foundations	1,182	–	1,182	(487)
Discount on pledges	–	96,280	96,280	–
(Increase) decrease in:				
Receivables:				
Other	49,598	–	49,598	(38,823)
Grants	–	125,000	125,000	(73,000)
Pledges	–	(745,000)	(745,000)	–
Prepaid expenses	15,157	–	15,157	(3,010)
Inventory	4,610	–	4,610	10,183
Increase (decrease) in:				
Accounts payable	(434)	–	(434)	4,596
Accrued vacation	3,629	–	3,629	792
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,199,230</u>	<u>58,703</u>	<u>1,257,933</u>	<u>(421,705)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(1,336,122)	–	(1,336,122)	(117,044)
Proceeds from sale of investments	1,444,665	329,995	1,774,660	866,507
Purchases of investments	(1,104,717)	(96,020)	(1,200,737)	(227,504)
Net Community Foundation activity	1,633	–	1,633	1,381
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ (994,541)</u>	<u>\$ 233,975</u>	<u>\$ (760,566)</u>	<u>\$ 523,340</u>

See Notes to Financial Statements.

MONTEREY MUSEUM OF ART
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)
(Continued)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
CASH FLOWS FROM FINANCING ACTIVITIES –				
Capital lease obligations	\$ (5,861)	\$ –	\$ (5,861)	\$ (5,265)
Payments on long term debt	(400,000)	–	(400,000)	–
Proceeds from refundable advance	<u>197,800</u>	<u>–</u>	<u>197,800</u>	<u>–</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(208,061)</u>	<u>–</u>	<u>(208,061)</u>	<u>(5,265)</u>
NET INCREASE (DECREASE) IN CASH	(3,372)	292,678	289,306	96,370
CASH, BEGINNING OF YEAR	<u>242,909</u>	<u>17,008</u>	<u>259,917</u>	<u>163,547</u>
CASH, END OF YEAR	<u>\$ 239,537</u>	<u>\$ 309,686</u>	<u>\$ 549,223</u>	<u>\$ 259,917</u>
SUPPLEMENTAL INFORMATION –				
Interest paid	<u>\$ 6,440</u>	<u>\$ –</u>	<u>\$ 6,440</u>	<u>\$ 2,797</u>
SUPPLEMENTAL INFORMATION OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Property and equipment acquired with debt:				
Cost of property and equipment	\$ 2,456,122	\$ –	\$ 2,456,122	\$ –
Less debt incurred to acquire property and equipment	<u>(1,120,000)</u>	<u>–</u>	<u>(1,120,000)</u>	<u>–</u>
Cash paid to acquire property and equipment	<u>\$ 1,336,122</u>	<u>\$ –</u>	<u>\$ 1,336,122</u>	<u>\$ –</u>

See Notes to Financial Statements.

MONTEREY MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The Monterey Museum of Art (the Museum) is organized to foster the production and exhibition of visual arts and the cultivation of the public appreciation thereof by providing a museum of art and conducting education and other programs and activities which foster appreciation, creation and support of the arts.

Basis of Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, other support and expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Museum and changes therein are classified as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for various purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time, or net assets that are perpetual in nature and subject to donor-imposed restrictions that they be maintained in perpetuity by the Museum. Generally, the donors of assets to be held in perpetuity permit the Museum to use all or a part of the income earned on related investments for general or specified purposes.

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.”

Revenue Recognition – Contributions, which include unconditional promises to give, are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be without donor restrictions unless specifically restricted by the donor.

Gains and losses on investments and other assets and liability are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Museum receives contributions in the form of donations including Museum memberships, grants, and in-kind donations. The Museum also generates special events income which can have an exchange as well as contribution components. Contributions have no exchange component, though many have restrictions as to purpose. Memberships are primarily fully tax-deductible and are therefore considered contributions. Grants received are unconditional in nature with no barriers to overcome prior to recognition or exchange components and are therefore considered contributions.

Fair Value Measurements – The estimated fair values of the Museum’s short-term financial instruments, including cash, receivables, and payables, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Cash and Cash Equivalents – The Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for money market funds held in brokerage accounts, which are classified as investments.

Concentration of Credit Risk – The Museum maintains their cash in bank deposit accounts and money market funds held in brokerage accounts. Cash in bank deposit accounts at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2020, cash in bank deposit accounts exceeded insured limits by \$268,768. Cash and cash equivalents in brokerage accounts is insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). At June 30, 2020 cash in brokerage accounts exceeded insured limits by \$-0-.

Receivables – Receivables are recorded using the allowance method and are presented net of the allowance for uncollectibility. The allowance is based on prior years’ experience and management analysis of receivable balances. At June 30, 2020, the allowance is estimated to be \$-0-.

Unconditional Promises to Give – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using an estimated discount rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Management provides for probable uncollectible amounts based on its assessment of recent collections, economic factors, and current donor relationships. The allowance has been estimated at \$-0- for the year ended June 30, 2020.

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

Investments – Investments in marketable securities with readily determinable fair values are reported at fair value based on quoted market prices in active markets (all level 1 inputs). Investment returns (including gains and losses on investments, interest and dividends) is included in the statement of activities as an increase or decrease in net assets without donor restrictions unless the income or loss is restricted by donor or law.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments – restricted – Certain investments are classified as restricted because there are external limits on their use for art acquisitions and the care of the art collection. At June 30, 2020, the fair value of such investments was \$307,574.

Property – net – Property is recorded at cost, except for donated property which is recorded at fair value on the date received. Such donations are reported as without donor restrictions support unless the donated asset is donated with donor restrictions to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets are to be maintained, the Museum reports expiration of the donor restriction when the asset is placed in service. It is the policy of the Museum to capitalize all property and equipment acquisitions greater than \$5,000 with an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

Vehicles	5 Years
Equipment	5 – 7 Years
Furniture and fixtures	7 Years
Improvements	7 – 31.5 Years
Building – La Mirada	31.5 Years

Collections – The collections, which were acquired through purchases and contributions since the Museum’s inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions, if the assets used to purchase the items are restricted by donors. 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 Museum’s collections are made up of works in a variety of media by artists, past and present, who have worked in the Monterey region; works in a variety of media by other California artists; works of national and international photographers; works of national and international graphic artists; works of Asian and Pacific Rim artists and Asian and Pacific Rim artifacts; works of folk, ethnic and tribal art of all nations and cultures; and works unrelated to the defined categories that are such quality and interest as to be fitting and enhancing additions to the fine arts collection. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections will not be used to pay for the costs of or to serve as collateral for the Museum’s operating and/or capital costs.

Accrued Vacation – Regular, full-time employees with 61 days-3 years of full-time service earn 120 Hours (15 days) each year, maximum earned 180 Hours (22.5 days) and employees with 3-5 years of full-time service earn 160 hours (20 days) each year, maximum earned 240 Hours (30 Days). Employees with 5+ years of full-time employment 200 Hours (25 days) each year, maximum earned 300 hours (37.5 Days). Any unused vacation accrual is paid upon termination.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services – Donated services are not recorded unless 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.

Income Taxes – As a tax exempt not-for-profit organization, the Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d) but is subject to taxes on unrelated business income when earned.

Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Museum's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Advertising Costs – The Museum expenses the production costs of advertising the first time the advertising takes place. Advertising and promotion expenses totaled \$26,857 for the year ending June 30, 2020.

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 and statement of functional expenses. Certain categories of expenses are attributable to both program and supporting functions. Accordingly, such costs have been allocated among the programs and supporting services benefited. Salaries, payroll taxes and employee benefits are allocated on a percentage of use as determined by staff time. Facilities, equipment and other expenses which are attributable to more than one function are allocated based on the ratio of program or supporting services which receive the benefit of those expenses.

Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Summarized Totals for June 30, 2019 – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation.

Effect of New Pronouncements – The Museum has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Museum's financial reporting. The adoption of this standard resulted in no significant changes in the way the Museum recognizes revenue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard redefines revenue recognition around the instance of transfer of control, rather than the transfer of risks and rewards, and provides recognition guidance in instances of variable consideration, licenses, and contract costs. For entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020, the ASU is effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application of the amendments in this update is permitted. The Museum has no plan for early implementation of this Statement. At this time the Museum is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new standard, a lessee recognizes in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For nonpublic entities, this new standard is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Museum has no plan for early implementation of this Statement. At this time the Museum is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes, modifies and adds certain disclosure requirements of ASC Topic 820. The ASU is effective for all entities for annual reporting periods beginning after December 15, 2019. Early adoption is permitted upon issuance of this Update. The Museum has no plan for early implementation of this Statement. At this time the Museum is not certain of the effect the adoption of ASU 2018-13 will have on the accompanying financial statements.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. This standard modifies the definition of “collections” to allow proceeds from sales of collection items to be used to support the direct care of existing collections, in addition to the acquisition of other items for collections. The standard also requires a collection-holding entity to disclose its policy for the use of proceeds from when collection items are deaccessioned. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Museum has no plan for early implementation of this Statement. At this time the Museum is not certain of the effect the adoption of ASU 2019-03 will have on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through March 4, 2021, which is the date the financial statements were available to be issued. See Note 18 for further information.

NOTE 2. FAIR VALUE MEASUREMENTS

The Museum measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

As noted above, the guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2020 by caption on the statement of financial position by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3
Unconditional Promise to Give (Note 5)	\$ –	\$ –	\$ 571,087
Investments (Note 6)	\$ 6,924,472	\$ –	\$ –

Following is a description of the Museum’s valuation methodologies for assets and liabilities measured at fair value:

Fair value for Level 1 is based upon quoted market prices. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

Fair value for Level 3 utilizes the key input of a discount rate to convert the expected future cash flows from the unconditional promise to give to a single present value amount. The Museum utilizes an estimated discount rate at June 30, 2020 and develops measurement criteria based on the best information possible. The net present value of the unconditional promise to give utilizes significant unobservable inputs in estimating fair value. The following is a summary of activities for the year ended June 30, 2020 for assets and liabilities measured at fair value based on Level 3 inputs:

	<u>Promise to Give</u>
Balance, beginning of year	\$ 594,772
Amortization	<u>(23,685)</u>
Balance, end of year	<u>\$ 571,087</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are 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 estimate of fair value at the reporting date.

NOTE 3. PLEDGES RECEIVABLE – NET

Pledges receivable consist of unconditional promises to give contributions to the Museum's Capital Campaign related to the development of a vital center at La Mirada and Perry Lane for arts contemplation and engagement. The Museum has received pledges for the 2020-2021, 2021-2022, 2022-2023 and 2020-2024 years. The pledges have been discounted at a discount rate of 6%. The allowance for uncollectible pledges is \$-0- as of June 30, 2020.

Pledges receivable at June 30, 2020 are as follows:

Receivable in less than one year	\$ 205,000
Receivable in one to five years	<u>540,000</u>
Total pledges	745,000
Less: Discount to present value	<u>96,280</u>
Pledges receivable – net	<u>\$ 648,720</u>

NOTE 4. PROPERTY – NET

Property consisted of the following at June 30, 2020:

Improvements	\$ 1,712,787
Building – La Mirada	7,492,224
Equipment	315,418
Furniture & fixtures	139,700
Vehicles	<u>46,083</u>
Total	9,706,212
Less: accumulated depreciation	<u>6,150,308</u>
Property – Net	<u>\$ 3,555,904</u>

Depreciation for the year ended June 30, 2020 was \$186,342, included in this amount is \$5,772 of amortization on leased equipment which is explained in further detail in Note 11.

NOTE 5. UNCONDITIONAL PROMISE TO GIVE

Use of Building – net – The Museum entered into an agreement with the City of Monterey whereby they receive free use of the City owned building at 559 Pacific Street for the purpose of operating a public museum. The original agreement was entered into on May 31, 1979 for a term of forty years. The agreement was amended on November 27, 1996 to extend the agreement to May 31, 2036. Accordingly, an unconditional promise to give has been recorded to reflect the value of the donated rent received from the City of Monterey. The annual amount of donated rent recorded is \$61,765 and was determined by spreading the estimated fair value of the property (\$2,100,000) over the term of the agreement. The future estimated value of the rents over the remaining life of the agreement is recorded as an unconditional promise to give which has been discounted to its present value. The amount of amortization recorded as support for the year ending June 30, 2020 was \$23,685.

Unconditional promise to give at June 30, 2020 was as follows:

Receivable in less than one year	\$ 61,765
Receivable in one to five years	308,824
Receivable in more than five years	<u>617,647</u>
Total unconditional promise to give use of building	988,236
Less discount to net present value	<u>355,384</u>
Net unconditional promise to give use of building	632,852
Less current portion	<u>61,765</u>
Total	<u>\$ 571,087</u>

The discount rate used was 5.8%.

NOTE 6. INVESTMENTS

Investments consisted of the following at June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Stock funds	\$ 1,279,798	\$ 2,782,896	\$ 4,062,694
Mutual Funds:			
Bonds	612,327	684,976	1,297,303
Stock	340,777	568,103	908,880
Exchange Traded Funds	249,954	178,364	428,318
Money Market	99,767	105,420	205,187
Other	<u>8,200</u>	<u>13,890</u>	<u>22,090</u>
Total investments	<u>\$ 2,590,823</u>	<u>\$ 4,333,649</u>	<u>\$ 6,924,472</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest/dividend income	\$ 68,389	\$ 96,020	\$ 164,409
Net realized/unrealized gain on investments	50,617	99,825	150,442
Investment fees	<u>(31,837)</u>	<u>(47,559)</u>	<u>(79,396)</u>
Investment return - net	<u>\$ 87,169</u>	<u>\$ 148,286</u>	<u>\$ 235,455</u>

NOTE 7. COMMUNITY FOUNDATIONS

Community Foundation for Monterey County

The Community Foundation for Monterey County (CFMC) holds funds for the Museum in the amount of \$68,941. The Museum has granted variance power to CFMC. In the event of the dissolution of the Museum or in the event it shall no longer be an organization described in Section 170(c) of the Internal Revenue Code of 1954, as amended, CFMC shall continue to hold the funds and shall distribute the income to such organizations as in their opinion most nearly serve the purposes and objectives of the Museum. All funds held are subject to the power of CFMC to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations, if in their sole judgment such restriction becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by them.

NOTE 7. COMMUNITY FOUNDATIONS (Continued)

The earnings payout of the funds is determined based on the September 30 balance of the fund. The percentage payout is based on a three-year average. The payout at June 30, 2020 was \$3,148, which is 4.5% of the fair value of the fund at September 30th of the preceding calendar year. In the fiscal year ending June 30, 2020 the fair value of the funds decreased to \$68,941.

In addition, the Community Foundation for Monterey County holds an endowment fund for the Museum known as the Maud Porter Work Rose Garden Fund. At June 30, 2020, the balance of the Maud Porter Work Rose Garden Fund was \$117,676. The income distribution from this fund to the Museum amounted to \$5,547 for the fiscal year ending June 30, 2020 and is restricted to maintenance of the La Mirada rose garden. The endowment fund balance is not reflected in the accompanying financial statements as the Museum has no ownership rights to the fund.

Lastly, the Community Foundation for Monterey County holds an endowment fund for the Museum known as the John H. Marble Endowment Fund. At June 30, 2020, the balance of the John H. Marble Endowment Fund was \$8,838,617. The income distribution from this fund to the Museum amounted to \$408,203 for the fiscal year ending June 30, 2020. Two-thirds of the annual payout shall be used to establish and operate a gallery at the Museum's primary location which will be dedicated in perpetuity to the exhibition of California art as defined by the Museum. It is also acceptable for funds to be allocated for the gallery at the Museum's La Mirada location. However, if the trustee determines that two-thirds of the annual payout is inadequate to make reasonable support to establish, maintain and operate the proposed gallery as described above, then two-thirds of the annual payout may be used for the purpose of acquisitions, without donor restrictions. The remaining one-third of the annual payout shall be used for the acquisition, with donor restrictions, of artistic creations associated with the Central Coast of California. The endowment fund balance is not reflected in the accompanying financial statements as the Museum has no ownership rights to the fund.

The activity in the Community Foundation funds for the year ended June 30, 2020 is as follows:

	<u>Monterey County</u>
Beginning balance	\$ 71,756
Interest and dividends	2,306
Realized gain (loss)	(1,655)
Unrealized gain (loss)	473
Expenses	(791)
Distributions	<u>(3,148)</u>
Ending Balance	<u><u>\$ 68,941</u></u>

NOTE 7. COMMUNITY FOUNDATIONS (Continued)

	John H. Marble Endowment* Fund	Maud Porter Work Rose Garden* Fund	Total
Beginning balance	\$ 9,154,859	\$ 122,969	\$ 9,277,828
Interest and dividends	290,268	3,948	294,216
Realized gain (loss)	(212,106)	(2,827)	(214,933)
Unrealized gain (loss)	87,772	783	88,555
Expenses	(73,973)	(1,650)	(75,623)
Distributions	<u>(408,203)</u>	<u>(5,547)</u>	<u>(413,750)</u>
Ending Balance	<u>\$ 8,838,617</u>	<u>\$ 117,676</u>	<u>\$ 8,956,293</u>

*These balances are not reflected in the accompanying financial statements as the Museum has no ownership rights to these funds.

NOTE 8. LINE OF CREDIT

The Museum has a revolving credit line of \$300,000 with JP Morgan Chase Bank with interest payable monthly at 4.03% above the bank's prime rate. The balance as of June 30, 2020 was \$-0-.

NOTE 9. REFUNDABLE ADVANCE

The Museum received \$197,800 of funding from 1st Capital Bank under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan accrues interest at 1%, but payments are not required to begin until the date that the SBA remits the borrower's loan forgiveness amount to the lender. The Museum anticipates that they will be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. The Museum has recorded the loan as a refundable advance in accordance with the guidance in ASC 958-605 in which the loan proceeds would be considered a conditional contribution.

NOTE 10. PERRY LANE PURCHASE PROMISSORY NOTE

On May 19, 2020 the Museum executed an agreement to purchase 590 Perry Lane, Monterey, CA - 1.8-acre parcel adjacent to the Museum's La Mirada facility for \$2,420,000. The intent of the property is to provide additional space for educational programs, exhibits and parking at the La Mirada facility.

NOTE 10. PERRY LANE PURCHASE PROMISSORY NOTE (Continued)

The Museum remitted a \$1,300,000 deposit in escrow toward the initial purchase price with a \$1,120,000 promissory note outstanding to the Ray T. Sumida & The Sumida Family Trust UTA at close on the property. The promissory note is interest bearing only at a rate of 4.00% per annum. Interest on principal is due monthly during the term of the note. The principal and all accrued but unpaid interest shall be due and payable upon any sale of the property located at 590 Perry Lane, Monterey, CA but in any event no later than May 2030. As such, all future principal payments have been classified as long-term with no debt payment maturity schedule until principal comes due in May 2030.

In June 2020, the Museum remitted an additional \$400,000 in principal payments toward the promissory note resulting in an outstanding balance of \$720,000 as of June 30, 2020. The Museum has paid interest expense of \$5,329 on the promissory note for the year-ended June 30, 2020.

NOTE 11. CAPITAL LEASE OBLIGATIONS

The Museum leases two copiers under a long-term capital lease. The lease extends 4 years with an interest rate of approximately 10%. At June 30, 2020, total future minimum payments under capital leases consist of:

2021	\$ 6,972
2022	<u>581</u>
Total future minimum lease payments at June 30, 2020	7,553
Less amounts representing interest	<u>454</u>
Present value of net minimum lease payments	7,099
Less current portion of capital lease obligations	<u>6,523</u>
Long-term portion of capital lease obligations	<u>\$ 576</u>

The following is the property and equipment under capital leases at June 30, 2020:

Equipment	\$ 19,049
Less accumulated amortization	<u>12,521</u>
Property and equipment under capital leases – net	<u>\$ 6,528</u>

Amortization expense for the above is \$5,772 for the year ended June 30, 2020 and is included in total depreciation expense.

NOTE 12. NET ASSETS – BOARD DESIGNATED

As described in Note 7 to the financial statements, the Board established a fund at the Community Foundation for Monterey County for endowment purposes.

NOTE 13. NET ASSETS – WITH DONOR RESTRICTIONS

At June 30, 2020 net assets with donor restrictions consist of the following:

Subject to expenditure for specific purpose or passage of time:

Capital campaign	\$ 730,066
Promise to give – use of building	632,852
General	506,621
La Mirada	382,788
Photography	271,801
Acquisitions	174,037
Hansen collection	128,685
La Mirada rose gardens	56,623
Education	10,312
Free family fun day	10,090
Exhibitions	4,415
Fixed assets	<u>3,523</u>
Subtotal	<u>2,911,813</u>

Donor-restricted endowments held in perpetuity:

General endowment	1,068,873
La Mirada	884,957
Photography	450,000
Hansen collection	250,000
Acquisitions	249,264
La Mirada rose garden	<u>110,000</u>
Subtotal	<u>3,013,094</u>

Total \$ 5,924,907

During the course of the year, net assets whose use by the Museum was subject to donor-imposed restrictions were fulfilled by actions of the Museum pursuant to those restrictions. These assets are shown in the Statement of Activities as “net assets released from restriction.” A detail of the net assets released from restrictions at June 30, 2020 is as follows:

Capital campaign	\$ 1,562,705
General	185,526
La Mirada	50,410
Education	45,857
Photography	38,184
Exhibitions	28,085
Promise to give – use of building	23,685
Hansen collection	17,584
Fixed assets	16,727
Facilities	14,000
La Mirada rose gardens	13,284
Free family fun day	7,533
Other	1,399
Development	<u>600</u>
Total	<u>\$ 2,005,579</u>

NOTE 14. ENDOWMENT

The Museum's endowment consists of approximately 6 individual funds established for a variety of purposes, plus funds held at the Community Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (Funds). As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Museum classifies as net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment and (c) accumulations to the restricted 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 under net assets with donor restrictions is classified as net assets with donor restrictions that are restricted by time or purpose until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum 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 Museum
- (7) The investment policies of the Museum

Spending Policy – The annual payout rate shall be established as a way to address immediate organizational needs while maintaining the perpetual nature of the funds. It shall be reviewed no less than annually by the Finance Committee. The criteria to be used to determine the annual allocation from the Funds to the operating budgets will include:

- (1) Projections for short term spending derived from the funds (following two years);
- (2) Rate of inflation as measured by subtracting the 10-year TIPS yield from the 10-year Treasury yield; and
- (3) Market value of the Funds averaged over the 3 years (current year plus 2 preceding years), as of January 1st.

The recommended payout rate shall be calculated by taking up to 4% of the average Funds' balance over the three-year period using market values as of January 1st for each year. The Museum staff may propose a higher draw but must obtain Board of Trustees' approval. The payout rate will be reviewed and recalculated by June 1st of each year and applied to a monthly distribution schedule starting July 1st. Distributions from the donor-restricted endowment fund were \$282,436 for the year ending June 30, 2020.

NOTE 14. ENDOWMENT (Continued)

Investment Policy:

Investment Objective – The first objective is to achieve a balance among short term organizational needs and the long term preservation of the “real” (as measured in constant dollars, i.e., the “normal” value adjusted for inflation) value of the principal; and the realization of current return, i.e., income, and capital appreciation. The time horizon for the Funds is perpetuity as the portfolio is intended to continue throughout the life of the organization. The Finance Committee believes proper asset allocation, diversification, monitoring and rebalancing are necessary to achieving this end. The second objective is to recommend to the Board of Trustees an annual allocation from the Funds to the operating budget that is reasonably stable from year to year and that balances current and future budgetary requirements.

Asset Allocation Limitations – Are agreed upon by the endowment managers in consultation with the Executive/Finance Committee.

Risk Tolerance – The Board of Trustees acknowledges that some risk must be taken in order to achieve the long-term objectives of the Funds. It is recognized that the Funds will be subjected to the following risks: market, default, purchasing power, interest rate and liquidity risk. Those parties responsible for the management of the Funds are expected to manage these risks prudently through diversification, asset allocation and appropriate benchmarking. A stronger immediate reliance on the Funds will necessitate a shift towards less volatility and a more stable approach within the portfolio.

Endowment funds held with the Community Foundation are subject to their investment policies. See Note 7 for further disclosures on the endowment funds at the Community Foundation.

Endowment Net Asset Composition –

Endowment net asset composition as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor–restricted endowments	\$ –	\$ 4,333,649	\$ 4,333,649
Board–designated endowments	<u>68,941</u>	<u>–</u>	<u>68,941</u>
Total funds	<u>\$ 68,941</u>	<u>\$ 4,333,649</u>	<u>\$ 4,402,590</u>

NOTE 14. ENDOWMENT (Continued)**Changes in Endowment Net Assets –**

Changes in endowment net assets for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at Beginning of Year	\$ 71,756	\$ 4,467,799	\$ 4,539,555
Investment return:			
Investment income	2,306	96,020	98,326
Net realized/unrealized gain (loss)	<u>(1,182)</u>	<u>99,825</u>	<u>98,643</u>
Total investment return	1,124	195,845	196,969
Investment fees	(791)	(47,559)	(48,350)
Appropriation of endowment assets for expenditure	<u>(3,148)</u>	<u>(282,436)</u>	<u>(285,584)</u>
Balance at End of Year	<u>\$ 68,941</u>	<u>\$ 4,333,649</u>	<u>\$ 4,402,590</u>

NOTE 15. DEFINED CONTRIBUTION PLAN

The Museum sponsors a 403(b) salary reduction plan that covers all eligible employees. Employees who are at least 21 years of age and who have completed one year of service are eligible to participate in the plan. Participants are fully vested in the plan after completion of three years of service. The Museum does not match employee contributions however can elect a discretionary match under plan provisions. There was no discretionary employer match for the year-ended June 30, 2020.

NOTE 16. CONTINGENCIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. Due to the shelter-in-place order enacted by California Governor Gavin Newsom the Museum has remained closed to visitors since March 2020 as it is deemed a "non-essential" business.

The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Museum operates. The pandemic can impact the Museum's investment valuations based on stock market conditions as well as its the ability to admit visitors to the Museum as well as host in-person events. It is unknown how long these conditions will last and what the financial effect will be on the Museum.

NOTE 17. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Liquidity is managed following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining adequate liquid assets to fund near-term operating needs, and 3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations and capital projects will be discharged. The Museum has various sources of liquidity at its disposal, including cash, accounts receivable, grants receivable and investments.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 239,537
Investments	<u>2,283,249</u>
Financial assets available for general expenditure within one year	<u>\$ 2,522,786</u>

The Museum's endowment fund consists of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for general or specific purposes. Donor-restricted endowment funds are not available for general expenditure, unless designated for such a purpose. Although we intend to spend from donor-restricted endowment funds (amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts are subject to our spending policy and board review, and therefore, are not included above.

NOTE 18. SUBSEQUENT EVENTS

In September 2020, the Museum obtained an economic injury disaster loan (EIDL) of \$150,000 from the Small Business Administration (SBA). Installment payments, including principal and interest, of \$641 monthly, will begin twelve (12) months from the date of the promissory note, September 8, 2020. The balance of principal and interest will be payable Thirty (30) years from the date of the promissory note. The loan accrues interest at a rate of 2.75% per annum.

In December 2020, the Museum submitted an application as well as required supporting documentation for forgiveness of their Paycheck Protection Program (PPP) loan. The forgiveness application was reviewed by 1st Capital Bank and the SBA and their request for forgiveness was approved in full on February 3, 2021. Since the request was approved in full, all interest accrued on the loan has also been forgiven and there is no balance due on the loan. The Museum will recognize the loan proceeds as contribution revenue on February 3, 2021, the date all conditions have been met.

In January 2021, the Museum applied with 1st Capital Bank for a second draw on the PPP. The second draw in the amount of \$184,768 was approved by the SBA and the Museum is in the process of finalizing the PPP loan documentation.