

HIGH DESERT MUSEUM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)**



HIGH DESERT MUSEUM
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16
Supplementary Information:	
Schedule of Functional Expenses	17

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
High Desert Museum
Bend, Oregon

We have audited the accompanying financial statements of High Desert Museum (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The Right People Beside You.

CPAs & Business Advisors
Retirement Plan Services
Financial Advisors

> jr CPA.com

BEND 300 SW Columbia Street
Suite 201
Bend, OR 97702
phone (541) 382-3590
fax (541) 382-3587

EUGENE 432 West 11th Avenue
Eugene, OR 97401
phone (541) 687-2320
fax (541) 485-0960

HILLSBORO 5635 NE Elam Young Pkwy.
Suite 100
Hillsboro, OR 97124
phone (503) 648-0521
fax (503) 648-2692

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Desert Museum as of June 30, 2016, 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.

Supplementary Information

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

Prior Year Summarized Comparative Information and Correction of an Error

The financial statements of High Desert Museum as of June 30, 2015, were audited by other auditors whose report dated December 11, 2015, expressed an unmodified opinion on those financial statements. As discussed in Note 15, High Desert Museum has restated its 2015 financial statements during the current year to correct accumulated depreciation, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2015 financial statements before the restatement

As part of our audit of the 2016 financial statements, we also audited adjustments described in Note 15 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of High Desert Museum other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Jones & Roth, P.C.

Jones & Roth, P.C.
Bend, Oregon
November 22, 2016

FINANCIAL STATEMENTS

HIGH DESERT MUSEUM
STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	Restated 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 1,518,036	\$ 1,765,698
Pledges receivable	14,524	29,344
Grants receivable	32,500	218,136
Inventory	85,786	83,830
Prepaid expenses and deposits	54,261	20,723
Total current assets	1,705,107	2,117,731
Endowment investments	2,627,651	2,532,265
Beneficial interest in Oregon Community Foundation	321,481	332,933
Facilities and equipment, less accumulated depreciation	13,694,106	13,670,132
Total assets	\$ 18,348,345	\$ 18,653,061
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 196,156	\$ 221,676
Accrued payroll and taxes	114,112	109,796
Accrued compensated absences	56,890	53,906
Deposits and gift certificates	99,799	84,126
Total current liabilities	466,957	469,504
Net assets		
Unrestricted:		
Board designated endowment	516,346	366,346
Undesignated	13,522,861	14,403,975
Total unrestricted	14,039,207	14,770,321
Temporarily restricted	1,616,660	1,187,815
Permanently restricted	2,225,521	2,225,421
Total net assets	17,881,388	18,183,557
Total liabilities and net assets	\$ 18,348,345	\$ 18,653,061

The accompanying notes are an integral part of these statements.

HIGH DESERT MUSEUM
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	<u>Unrestricted</u>	Temporarily	Permanently	<u>Total</u>	
		<u>Restricted</u>	<u>Restricted</u>	2016	2015
Operating support and revenue					
Memberships	\$ 343,620	\$ -	\$ -	\$ 343,620	\$ 332,487
Admissions, net of discounts	1,171,017	-	-	1,171,017	1,074,143
Contributions	830,149	187,483	100	1,017,732	1,978,386
Educational and program fees	140,907	-	-	140,907	132,903
Merchandise and other sales, net of discounts	730,642	-	-	730,642	685,308
Cost of goods sold	(316,272)	-	-	(316,272)	(286,942)
Grants	241,106	357,310	-	598,416	793,914
Fundraising events, net of direct expenses of \$181,879	360,070	-	-	360,070	139,543
Facility rental	55,498	-	-	55,498	55,773
Other revenue	5,821	-	-	5,821	24,558
Investment income	1,918	33,875	-	35,793	38,920
Loss on disposal of assets	(30,445)	-	-	(30,445)	-
Total operating support and revenue	<u>3,534,031</u>	<u>578,668</u>	<u>100</u>	<u>4,112,799</u>	<u>4,968,993</u>
Net assets released from restrictions	<u>149,823</u>	<u>(149,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating expenses					
Program services:					
Exhibits	1,522,894	-	-	1,522,894	1,621,396
Educational and program fees	1,114,394	-	-	1,114,394	850,691
Visitor Services	715,627	-	-	715,627	468,893
Communications	<u>453,625</u>	<u>-</u>	<u>-</u>	<u>453,625</u>	<u>329,095</u>
Total program services	<u>3,806,540</u>	<u>-</u>	<u>-</u>	<u>3,806,540</u>	<u>3,270,075</u>
Support services:					
Management and general	218,338	-	-	218,338	256,881
Fundraising	<u>390,090</u>	<u>-</u>	<u>-</u>	<u>390,090</u>	<u>483,768</u>
Total support services	<u>608,428</u>	<u>-</u>	<u>-</u>	<u>608,428</u>	<u>740,649</u>
Total operating expenses	<u>4,414,968</u>	<u>-</u>	<u>-</u>	<u>4,414,968</u>	<u>4,010,724</u>
Change in net assets	(731,114)	428,845	100	(302,169)	958,269
Net assets, beginning of year, as restated	<u>14,770,321</u>	<u>1,187,815</u>	<u>2,225,421</u>	<u>18,183,557</u>	<u>17,225,288</u>
Net assets, end of year	<u>\$ 14,039,207</u>	<u>\$ 1,616,660</u>	<u>\$ 2,225,521</u>	<u>\$ 17,881,388</u>	<u>\$ 18,183,557</u>

The accompanying notes are an integral part of these statements.

HIGH DESERT MUSEUM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (302,169)	\$ 958,269
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	664,163	456,807
Loss on disposal of assets	30,445	-
Realized and unrealized losses on investments	32,790	14,576
Endowment investment income	(67,917)	-
Donated stock	-	(88,323)
(Increase) decrease in:		
Pledges and grants receivable	200,456	(210,243)
Inventory	(1,956)	2,810
Prepaid expenses and deposits	(33,538)	60,063
Increase (decrease) in:		
Accounts payable	(25,521)	155,891
Other accrued expenses	<u>22,973</u>	<u>42,947</u>
 Net cash provided by operating activities	 <u>519,726</u>	 <u>1,392,797</u>
Cash flows from investing activities		
Sales of investments	-	179,600
Purchases of investments	-	(396,482)
Change in the value of OCF account	11,452	595
Contributions to investment accounts	(150,100)	-
Withdrawals from investment accounts	89,840	14,998
Purchases of equipment	<u>(718,580)</u>	<u>(262,894)</u>
 Net cash used by investing activities	 <u>(767,388)</u>	 <u>(464,183)</u>
 Net increase (decrease) in cash and cash equivalents	 <u>(247,662)</u>	 <u>928,614</u>
 Cash and cash equivalents, beginning of year	 <u>1,765,698</u>	 <u>837,084</u>
 Cash and cash equivalents, end of year	 <u>\$ 1,518,036</u>	 <u>\$ 1,765,698</u>

The accompanying notes are an integral part of these statements.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

High Desert Museum (the Museum) was incorporated as a nonprofit organization in the state of Oregon in October 1974. Tax-exempt status has been granted by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. The Museum is located in Bend, Oregon, and is dedicated to broadening the understanding of the High Desert's wildlife, culture, art, and natural resources for the purpose of promoting thoughtful decision-making that will sustain the region's natural and cultural heritage.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Public Support and Revenue

Annual contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded in the period they are received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received. The majority of the promises to give are related to the Museum's educational program support. Management's estimate of collectability is based, among other things, on the Museum's past collection experience and an estimate of the impact of current economic conditions. All unconditional promises to give are considered to be collectible and available for unrestricted use, unless specifically restricted by the donor.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Restrictions on gifts of capital assets or cash for the purchase of capital assets expire over the useful life of the particular capital asset.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings are recorded as unrestricted or temporarily restricted revenue based on the absence or existence of restrictions on earnings of the various funds.

Contributions of donated noncash assets are recorded at the estimated market value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by those persons possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated market values in the period received. Contributions of donated labor from Museum volunteers are not recorded in the financial statements. The Museum estimates \$597,854 and \$527,943, respectively, in volunteer labor was received during the years ended June 30, 2016 and 2015.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not for Profit Entities*. Under ASC 958, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* – represent expendable funds that are available in support of the Museum's operations.
- *Board Designated net assets* – certain amounts have been designated by the Board of Directors to be expended at the discretion of the Board of Directors. A majority of the board designated net assets represents the balances held at the Oregon Community Foundation (see Note 6).
- *Temporarily restricted net assets* – consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time. As donor restrictions are fully satisfied by the Museum, the temporarily restricted net assets are released from restrictions to unrestricted net assets.
- *Permanently restricted net assets* – consist of contributions with donor restrictions that stipulate the resources be maintained permanently, but permit the Museum to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds in checking accounts, on hand and in interest-bearing money market accounts which have original maturities of three months or less. Such investments are stated at cost. The amounts reported in the statement of financial position approximate fair value, due to their current nature. Cash and short-term investments held in Charles Schwab money market accounts are reported as investments instead of cash because the Museum holds those funds as an endowment.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by specific identification.

Investments

Investments are composed of mutual funds investing in debt and equity securities and are carried at fair value. Investment income is recorded as earned. Unrealized gains and losses are included as changes in net assets in the accompanying statement of activities and changes in net assets.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Collections

The Museum has elected not to recognize contributions or capitalize items donated to their collections, which are held for public exhibition and education. Such collections represent artwork, artifacts, and other items which are considered to have continuing values and perpetual lives. The Museum maintains strict controls over collections which provide security and long-term preservation of such collections. The Museum records costs of collection items purchased as a decrease in the appropriate class of net assets and records proceeds from sale of collection items as an increase in the appropriate class of net assets in the financial statements.

Memberships

Revenues from memberships with a one-year term are recognized upon receipt.

Facilities and Equipment

Facilities and equipment are stated at cost or, if donated, at approximate fair value at date of donation. When items are retired, sold, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. The Museum depreciates its facilities and equipment using the straight-line method over estimated useful lives of the related assets ranging from 3 to 50 years.

Advertising Expenses

The Museum advertises through outdoor and broadcast media (radio and television), as well as in various print publications. Advertising costs are expensed as incurred. Total advertising costs were \$182,640 and \$196,872 for the years ended June 30, 2016 and 2015, respectively.

Functional Allocation of Expenses

The costs of providing the Museum's various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates of costs associated with the various activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Museum to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts estimated could differ from actual results.

2. Cash and Cash Equivalents

The carrying amount of the Museum's cash balance was \$1,518,036 and \$1,765,698 and the bank balance was \$1,659,752 and \$1,828,082 at June 30, 2016 and 2015, respectively. Balances in bank accounts exceeded federal insurance coverage by \$729,369 and \$876,708 at June 30, 2016 and 2015, respectively.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

2. Cash and Cash Equivalents, continued

At June 30, 2016, there was a \$150,000 transfer in process to a quasi-endowment from cash and cash equivalents, which is included in the endowment investment balance on the statement of financial position. There was no restricted cash at June 30, 2016 and 2015.

3. Inventory

As of June 30, inventory is comprised of the following:

	2016	2015
Museum Shop	\$ 81,480	\$ 66,245
Café	3,204	4,379
Liquor	1,102	3,840
Linens	-	9,366
Total inventory	\$ 85,786	\$ 83,830

4. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices 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;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

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

The Oregon Community Foundation's (the Foundation) management represents that investments held at the Foundation consist of Level 1, Level 2, and Level 3 investments. The Foundation does not provide the Museum with information regarding what investments make up the Museum's assets held at the Foundation. As such, the Museum considers all investments held at the Foundation to be Level 3 investments. Gains and losses in such investments are disclosed in Note 6. All other investments are derived from the Level 1 pricing inputs.

As of June 30, the following tables set forth by level, within the fair value hierarchy, the Museum's assets at fair value:

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
US stocks	\$ 1,100,686	\$ -	\$ -	\$ 1,100,686
International stocks	479,127	-	-	479,127
Real estate investment trusts	256,142	-	-	256,142
Bonds	572,846	-	-	572,846
Cash and Money market funds held in endowments	218,850	-	-	218,850
Beneficial interest in OCF	-	-	321,481	321,481
	<u>\$ 2,627,651</u>	<u>\$ -</u>	<u>\$ 321,481</u>	<u>\$ 2,949,132</u>

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
US stocks	\$ 1,167,577	\$ -	\$ -	\$ 1,167,577
International stocks	524,804	-	-	524,804
Real estate investment trusts	223,221	-	-	223,221
Bonds	553,733	-	-	553,733
Money market funds	62,930	-	-	62,930
Beneficial interest in OCF	-	-	332,933	332,933
	<u>\$ 2,532,265</u>	<u>\$ -</u>	<u>\$ 332,933</u>	<u>\$ 2,865,198</u>

5. Investments

Investments are held at Charles Schwab. Market risk could occur and is dependent on the future changes in market prices of the various investments held.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

5. Investments, continued

For the year ended June 30, investment activity consisted of the following:

	<u>2016</u>	<u>2015</u>
Endowment investments, beginning of year	\$ 2,532,265	\$ 2,256,632
Contributions	150,100	451,679
Unrealized gain (loss)	(32,790)	(27,435)
Investment income	67,917	62,787
Investment fees	(19,016)	(15,857)
Distributions	<u>(70,825)</u>	<u>(195,541)</u>
 Endowment investments, end of year	 <u>\$ 2,627,651</u>	 <u>\$ 2,532,265</u>

At June 30, the investments are as follows:

	<u>2016</u>	<u>2015</u>
US stocks	\$ 1,100,686	\$ 1,167,577
International stocks	479,127	524,804
Real estate investment trusts	256,142	223,221
Bonds	572,846	553,733
Cash and money market funds held in endowments	<u>218,850</u>	<u>62,930</u>
 Total investments	 <u>\$ 2,627,651</u>	 <u>\$ 2,532,265</u>

6. Contributions to the Oregon Community Foundation Endowment Fund

The Museum follows FASB ASC 958, *Not for Profit Entities*, for amounts contributed to the Foundation by either the Museum or other donors on behalf of the Museum. FASB ASC 958 specifically requires that if a non-profit Museum establishes a fund with a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as endowment partner funds.

The Foundation maintains variance power and legal ownership of all funds, including endowment partner funds, and as such continues to report the funds as assets of the Foundation.

The Museum's fund at the Foundation was established to account for quasi-endowment donor contributions and to support the general purposes of the Museum by attracting and growing planned gifts that generate income beyond annual operating contributions. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

6. Contributions to the Oregon Community Foundation Endowment Fund, continued

For the year ended June 30, changes in endowment net assets are as follows:

	Permanently Restricted	
	2016	2015
Endowment assets, beginning of year	\$ 332,933	\$ 333,529
Investment return:		
Investment income	4,352	3,112
Realized gains (losses)	1,629	(295)
Unrealized losses	(14,766)	(527)
Total investment return (loss)	(8,785)	2,290
Investment fees	(2,667)	(2,886)
Endowment assets, end of year	\$ 321,481	\$ 332,933

The Foundation does not provide the Museum information on the purchases and sales of investments held at the Foundation. As such, the Museum reports as the change in value of the endowment funds, the net amount for investment income, disbursements, and investment fees realized in the endowment funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation distributes, not less than annually, an appropriate percentage of the fair market value of the principal and income of the fund to the Museum upon request. The Foundation may make distributions from the fund to the Museum in addition to the annual distribution upon a majority vote of the Museum's board of trustees. Additional distributions will be made only if the Foundation board determines the requested distribution is consistent with the objectives and purposes of the Museum and with the charitable, educational, and scientific needs of the state of Oregon. For the year ended June 30, 2016 and 2015, no distributions were received from the Foundation. It is the Museum's belief that the Foundation invests conservatively and therefore, the endowment funds may earn a rate slightly below average.

7. Endowment

The Museum's endowment consists of five funds established for different purposes. Investment earnings from the five nonexpendable funds are to be used for the following:

Undesignated Fund – are allocated at the discretion of the Board of Directors.

Education Fund – are allocated to education programs and events.

Exhibits Fund – are allocated to maintenance and development of new and existing exhibits.

Facilities Fund – are allocated to facilities maintenance.

Collections Fund – are allocated to the maintenance and preservation of collection items.

Wildlife Fund – are allocated to the care and maintenance of wildlife and enclosures.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

7. Endowment, continued

These funds are donor-restricted endowment funds. There are no funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

Absent explicit donor stipulations to the contrary, the Board of Directors of the Museum 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 gift date of the donor restricted endowment funds.

As a result of this interpretation, the Museum 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 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 donor-restricted endowment funds:

- (1) The duration and preservation of the various funds;
- (2) The purpose of the Museum and the donor-restricted endowment funds;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Museum; and
- (7) The Museum's investment policies.

For the year ended June 30, the following is a summary of endowment funds subject to UPMIFA by type and changes in endowment net assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at July 1, 2015	\$ 64,732	\$ 242,112	\$ 2,225,421	\$ 2,532,265
Investment return:				
Investment income	18,611	49,306	-	67,917
Net realized and unrealized loss	<u>(17,359)</u>	<u>(15,431)</u>	<u>-</u>	<u>(32,790)</u>
Total investment return	<u>1,252</u>	<u>33,875</u>	<u>-</u>	<u>35,127</u>
Contributions	<u>150,000</u>	<u>-</u>	<u>100</u>	<u>150,100</u>
Investment fees and distributions	<u>(25,412)</u>	<u>(64,429)</u>	<u>-</u>	<u>(89,841)</u>
Balance at June 30, 2016	<u>\$ 190,572</u>	<u>\$ 211,558</u>	<u>\$ 2,225,521</u>	<u>\$ 2,627,651</u>

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

7. Endowment, continued

	<u>Total</u>
Balance at July 1, 2014	\$ 2,256,632
Net change in investments	<u>275,633</u>
Balance at June 30, 2015	<u>\$ 2,532,265</u>

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide 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-specified funds that the Museum must hold in perpetuity or for a donor-specified period(s).

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum 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).

Spending Policy

Funds appropriated for expenditure are determined, reviewed, and approved by the Board. In determining appropriations for expenditure, the Board considers the purchasing power of the endowment assets and ensures that funds that are required to be held in perpetuity or for donor-specified period(s) are not expended.

8. Pledges Receivable

As of June 30, 2016 and 2015, \$14,524 and \$29,344, respectively, remained uncollected from donor pledges. The Museum determined no allowance for doubtful accounts was necessary as of June 30, 2016 and 2015. Provision for uncollectible amounts is determined based upon management's estimate of the likelihood of eventual collection.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

9. Facilities and Equipment

At June 30, facilities and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Non-depreciable:		
Land	\$ 195,000	\$ 195,000
Construction in progress	43,838	119,598
Depreciable:		
Buildings	17,870,547	17,265,351
Exhibits	6,961,579	6,984,434
Furniture and equipment	2,016,061	1,977,321
Land improvements	<u>855,729</u>	<u>747,978</u>
	27,942,754	27,289,682
Accumulated depreciation	<u>(14,248,648)</u>	<u>(13,619,550)</u>
Facilities and equipment, less accumulated depreciation	<u>\$ 13,694,106</u>	<u>\$ 13,670,132</u>

10. Revolving Line of Credit

The Museum has an annually renewable revolving line of credit with Bank of the Cascades. There were no outstanding borrowings on this line of credit at June 30, 2016 and 2015. The maximum borrowing capacity on the line of credit is \$500,000 and the interest rate at June 30, 2016 and 2015 was 4.50 percent and 4.25 percent, respectively.

11. Employee Retirement Program

The Museum offers an employee retirement program under Internal Revenue Code Section 403(b) which is available to all eligible employees. Employees may contribute up to 100 percent of their qualified wages subject to a ceiling prescribed by law. The Museum matches the employee's contribution at 50 percent of the amount contributed up to 5 percent of the employee's gross annual salary. During the years ended June 30, 2016 and 2015, the Museum contributed \$18,720 and \$8,842, respectively, to the program.

12. Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As a result, no provision for federal or state income taxes has been made.

The Museum is required to evaluate tax positions taken and to recognize a tax liability if an uncertain tax position has been taken that more likely than not would not be sustained upon examination by taxing authorities. Areas that taxing authorities consider when examining tax returns for tax exempt entities include, but are not limited to, tax-exempt status and the existence of unrelated business income. The Museum does not believe that it has any uncertain tax positions with respect to these or other matters and has not recorded any unrecognized tax benefits or liabilities for the years ended June 30, 2016 and 2015.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

13. Intentions to Give

The Museum has been named as a beneficiary in various wills and other trust and estate agreements. Assets from these agreements are not included in the statement of financial position of the Museum because the agreements are revocable at the discretion of the donor.

14. Reclassification of Prior Year Presentation

Certain amounts within the financial statements were reclassified in the prior year summarized information. The purpose of the reclassifications is to give consistent representation of the High Desert Museum's records. The reclassifications had no effect on the reported change in net assets for either period presented.

15. Correction of an Error

The 2015 comparative financial statements were restated to correct a prior period misstatement of accumulated depreciation. The impact of the restatement increased total accumulated depreciation and decreased total net assets by \$2,889,574.

16. Prior Year Summarized Comparative Information

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's audited financial statements for the year ended June 30, 2015, from which the summarized information is derived.

17. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

SUPPLEMENTARY INFORMATION

HIGH DESERT MUSEUM
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Program Services	Support Services		Total	
		Management and General	Fundraising	2016	2015
Personnel expenses					
Salaries and wages	\$ 1,384,146	\$ 136,981	\$ 232,575	\$ 1,753,702	\$ 1,618,825
Payroll taxes	146,500	14,695	21,156	182,351	175,951
Employee benefits	167,410	16,751	25,588	209,749	198,963
Pension	13,920	1,420	3,380	18,720	8,841
Total personnel expenses	<u>1,711,976</u>	<u>169,847</u>	<u>282,699</u>	<u>2,164,522</u>	<u>2,002,580</u>
Operating expenses					
Advertising and promotion	181,650	-	990	182,640	196,872
Awards and grants	15,000	-	-	15,000	16,421
Computer systems	33,913	2,266	8,087	44,266	25,910
Contract services	220,520	1,729	-	222,249	235,661
Depreciation	648,090	3,454	12,619	664,163	456,807
Dues and fees	14,079	7,946	1,373	23,398	112,933
Fundraising and promotional	-	-	4,823	4,823	-
Insurance	116,350	620	2,265	119,235	117,164
Operating supplies	208,277	3,640	26,423	238,340	201,703
Photography and art	12,325	-	772	13,097	9,684
Postage and freight	26,088	809	9,424	36,321	31,029
Printing and reproduction	25,455	345	11,025	36,825	41,094
Professional fees	2,837	13,180	161	16,178	34,336
Rental expenses	62,649	621	3,164	66,434	38,746
Repairs and maintenance	203,769	682	2,491	206,942	109,457
Subscriptions	3,678	-	-	3,678	1,252
Service charges	68,447	794	3,750	72,991	48,646
Staff training	13,721	1,256	6,512	21,489	17,785
Telephone	15,231	846	846	16,923	13,301
Travel	27,213	9,204	8,364	44,781	50,678
Bad debts	-	58	500	558	10,685
Utilities	195,272	1,041	3,802	200,115	237,980
Total operating expenses	<u>2,094,564</u>	<u>48,491</u>	<u>107,391</u>	<u>2,250,446</u>	<u>2,008,144</u>
Total expenses	<u>\$ 3,806,540</u>	<u>\$ 218,338</u>	<u>\$ 390,090</u>	<u>\$ 4,414,968</u>	<u>\$ 4,010,724</u>