

HIGH DESERT MUSEUM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**



HIGH DESERT MUSEUM
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

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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, 2018, 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.

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, 2018, 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 High Desert Museum's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on 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.

Jones & Roth, P.C.

Jones & Roth, P.C.
Bend, Oregon
December 12, 2018

FINANCIAL STATEMENTS

HIGH DESERT MUSEUM
STATEMENT OF FINANCIAL POSITION
June 30, 2018
(With Comparative Totals for June 30, 2017)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,571,929	\$ 1,491,723
Certificates of deposit	301,869	-
Pledges receivable	42,562	23,789
Grants receivable, current	161,683	140,914
Inventory	113,000	107,098
Prepaid expenses and deposits	94,045	82,047
Total current assets	2,285,088	1,845,571
Grants receivable, noncurrent	30,000	60,000
Endowment investments	2,992,144	2,826,995
Beneficial interest in Oregon Community Foundation	355,615	339,433
Intangible assets, less accumulated amortization	6,887	10,331
Facilities and equipment, less accumulated depreciation	12,888,712	13,186,560
Total assets	\$ 18,558,446	\$ 18,268,890
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 227,392	\$ 183,508
Accrued payroll and taxes	139,841	119,123
Accrued compensated absences	81,537	63,188
Deposits and gift certificates	147,203	84,401
Total current liabilities	595,973	450,220
Net assets		
Unrestricted:		
Board-designated endowment	600,340	502,012
Undesignated	13,354,462	13,031,670
Total unrestricted	13,954,802	13,533,682
Temporarily restricted	2,403,729	2,683,876
Permanently restricted	1,603,942	1,601,112
Total net assets	17,962,473	17,818,670
Total liabilities and net assets	\$ 18,558,446	\$ 18,268,890

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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018				Total 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Operating support and revenue					
Memberships	\$ 354,681	\$ -	\$ -	\$ 354,681	\$ 342,151
Admissions, net of discounts of \$22,255	1,320,589	-	-	1,320,589	1,267,953
Contributions	739,542	75,871	2,830	818,243	762,936
Educational and program fees	143,977	-	-	143,977	141,573
Merchandise and other sales, net of discounts of \$19,445	933,656	-	-	933,656	835,547
Cost of goods sold	(376,542)	-	-	(376,542)	(361,752)
Grants	582,026	498,250	-	1,080,276	782,769
Fundraising events, net of direct expenses of \$136,322	352,547	-	-	352,547	204,248
Facility rental	53,009	-	-	53,009	59,254
Other revenue	16,241	-	-	16,241	61,279
Investment income	169,812	107,095	-	276,907	358,620
Loss on disposal of assets	-	-	-	-	(1,886)
Total operating support and revenue	4,289,538	681,216	2,830	4,973,584	4,452,692
Net assets released from restrictions	961,363	(961,363)	-	-	-
Operating expenses					
Program services:					
Exhibits	1,523,411	-	-	1,523,411	1,355,848
Educational and program fees	863,411	-	-	863,411	842,779
Visitor services	712,914	-	-	712,914	670,233
Communications	475,007	-	-	475,007	461,035
Total program services	3,574,743	-	-	3,574,743	3,329,895
Support services:					
Management and general	245,163	-	-	245,163	219,432
Fundraising	358,485	-	-	358,485	338,848
Total support services	603,648	-	-	603,648	558,280
Total operating expenses	4,178,391	-	-	4,178,391	3,888,175
Change in net assets before depreciation and amortization	1,072,510	(280,147)	2,830	795,193	564,517
Depreciation and amortization	(651,390)	-	-	(651,390)	(627,235)
Change in net assets after depreciation and amortization	421,120	(280,147)	2,830	143,803	(62,718)
Net assets, beginning of year	13,533,682	2,683,876	1,601,112	17,818,670	17,881,388
Net assets, end of year	<u>\$ 13,954,802</u>	<u>\$ 2,403,729</u>	<u>\$ 1,603,942</u>	<u>\$ 17,962,473</u>	<u>\$ 17,818,670</u>

The accompanying notes are an integral part of these statements.

HIGH DESERT MUSEUM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets after depreciation and amortization	\$ 143,803	\$ (62,718)
Adjustments to reconcile change in net assets after depreciation and amortization to net cash provided by operating activities:		
Depreciation and amortization	651,390	627,235
Loss on disposal of assets	-	1,886
Realized and unrealized gains on investments	(174,146)	(255,501)
Endowment investment income	(37,518)	(40,468)
Increase in:		
Pledges and grants receivable	(9,542)	(177,679)
Inventory	(5,902)	(21,312)
Prepaid expenses and deposits	(11,998)	(27,786)
Increase (decrease) in:		
Accounts payable	43,884	(12,648)
Other accrued expenses	<u>101,869</u>	<u>(4,089)</u>
Net cash provided by operating activities	<u>701,840</u>	<u>26,920</u>
Cash flows from investing activities		
Purchase of certificates of deposit	(302,000)	-
Change in the value of OCF account	(16,182)	(17,952)
Contributions to investment accounts	(69,754)	-
Withdrawals from investment accounts	116,400	96,625
Purchases of equipment and intangibles	<u>(350,098)</u>	<u>(131,906)</u>
Net cash used by investing activities	<u>(621,634)</u>	<u>(53,233)</u>
Net increase (decrease) in cash and cash equivalents	80,206	(26,313)
Cash and cash equivalents, beginning of year	<u>1,491,723</u>	<u>1,518,036</u>
Cash and cash equivalents, end of year	<u>\$ 1,571,929</u>	<u>\$ 1,491,723</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 \$673,398, and \$606,935, respectively, in volunteer labor was received during the years ended June 30, 2018 and 2017.

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. Revenue is reported as an increase to unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized.
- *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, in interest-bearing money market accounts, and certificates of deposit 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.

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

Certificates of Deposit

As of June 30, 2018, the Museum held investments in two certificates of deposit with original maturities exceeding three months. The certificates earned interest of 0.02 percent. The certificates of deposit are reported at cost plus interest earned. The certificates matured on October 29, 2018 and October 30, 2018; however, both were renewed for another six-month period. As of June 30, 2017, the Museum held no investments in certificates of deposit with original maturities exceeding three months.

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 the 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 \$254,269, and \$251,265, for the years ended June 30, 2018 and 2017, 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 and changes in net assets. 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.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

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

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 \$1,571,929, and \$1,491,723 and the bank balance was \$1,182,249, and \$1,471,499 at June 30, 2018 and 2017, respectively. Balances in bank accounts exceeded federal insurance coverage by \$30,514 and \$119,872 at June 30, 2018 and 2017, respectively.

3. Inventory

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

	<u>2018</u>	<u>2017</u>
Museum Shop	\$ 106,014	\$ 98,609
Café	5,970	7,180
Event liquor	<u>1,016</u>	<u>1,309</u>
Total inventory	<u>\$ 113,000</u>	<u>\$ 107,098</u>

4. Fair Value Measurements

FASB 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 professional standards are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

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.

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.

The principal input used in determining the fair value of the beneficial interest in the Foundation is the value of the fund as reported by the Foundation, which is provided in their annual statement.

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, 2018			
	Level 1	Level 2	Level 3	Total
U.S. stocks	\$ 1,337,176	\$ -	\$ -	\$ 1,337,176
International stocks	646,421	-	-	646,421
Real estate investment trusts	288,292	-	-	288,292
Bonds	652,732	-	-	652,732
Cash and money market funds held in endowments	67,523	-	-	67,523
Beneficial interest in the Foundation	-	-	355,615	355,615
 Total assets at fair value	 <u>\$ 2,992,144</u>	 <u>\$ -</u>	 <u>\$ 355,615</u>	 <u>\$ 3,347,759</u>

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
U.S. stocks	\$ 1,210,730	\$ -	\$ -	\$ 1,210,730
International stocks	607,859	-	-	607,859
Real estate investment trusts	270,087	-	-	270,087
Bonds	655,334	-	-	655,334
Cash and money market funds held in endowments	82,985	-	-	82,985
Beneficial interest in the Foundation	-	-	339,433	339,433
	<u>\$ 2,826,995</u>	<u>\$ -</u>	<u>\$ 339,433</u>	<u>\$ 3,166,428</u>
Total assets at fair value	<u>\$ 2,826,995</u>	<u>\$ -</u>	<u>\$ 339,433</u>	<u>\$ 3,166,428</u>

5. Investments

Market risk could occur and is dependent on the future changes in market prices of the various investments held.

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

	2018	2017
Endowment investments, beginning of year	\$ 2,826,995	\$ 2,627,651
Contributions	69,754	-
Realized and unrealized gains	174,277	255,501
Investment income	58,128	59,223
Investment fees	(20,610)	(18,755)
Distributions	(116,400)	(96,625)
	<u>\$ 2,992,144</u>	<u>\$ 2,826,995</u>
Endowment investments, end of year	<u>\$ 2,992,144</u>	<u>\$ 2,826,995</u>

At June 30, the investments are as follows:

	2018	2017
U.S. stocks	\$ 1,337,176	\$ 1,210,730
International stocks	646,421	607,859
Real estate investment trusts	288,292	270,087
Bonds	652,732	655,334
Cash and money market funds held in endowments	67,523	82,985
	<u>\$ 2,992,144</u>	<u>\$ 2,826,995</u>
Total investments	<u>\$ 2,992,144</u>	<u>\$ 2,826,995</u>

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

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 nonprofit 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.

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

	Unrestricted	
	2018	2017
Endowment assets, beginning of year	\$ 339,433	\$ 321,481
Investment return:		
Investment income	2,838	2,889
Realized gains	6,513	3,272
Unrealized gains	24,566	35,852
Total investment return	33,917	42,013
Distributions	(14,577)	(21,221)
Investment fees	(3,158)	(2,840)
Endowment assets, end of year	\$ 355,615	\$ 339,433

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.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

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

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 years ended June 30, 2018 and 2017, distributions of \$14,577, and \$21,221, respectively, 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 – allocated at the discretion of the Board of Directors.

Education Fund – allocated to education programs and events.

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

Facilities Fund – allocated to facilities maintenance.

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

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

These funds are donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, 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.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

7. Endowment, continued

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, 2017	\$ 162,580	\$ 1,063,303	\$ 1,601,112	\$ 2,826,995
Investment return:				
Investment income	3,409	54,719	-	58,128
Net realized and unrealized gains	<u>10,193</u>	<u>164,084</u>	<u>-</u>	<u>174,277</u>
Total investment return	<u>13,602</u>	<u>218,803</u>	<u>-</u>	<u>232,405</u>
Contributions	<u>69,754</u>	<u>-</u>	<u>-</u>	<u>69,754</u>
Investment fees and distributions	<u>(1,211)</u>	<u>(135,799)</u>	<u>-</u>	<u>(137,010)</u>
Balance at June 30, 2018	<u>\$ 244,725</u>	<u>\$ 1,146,307</u>	<u>\$ 1,601,112</u>	<u>\$ 2,992,144</u>
				<u>Total</u>
Balance at July 1, 2017				\$ 2,826,995
Net change in investments				<u>165,149</u>
Balance at June 30, 2018				<u>\$ 2,992,144</u>

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

7. Endowment, continued

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 a donor-specified period(s) are not expended.

8. Pledges Receivable

As of June 30, 2018 and 2017, \$42,562, and \$23,789, respectively, remained uncollected from donor pledges. The Museum determined no allowance for doubtful accounts was necessary as of June 30, 2018 and 2017. Provision for uncollectible amounts is determined based upon management's estimate of the likelihood of eventual collection.

9. Grants Receivable

Grants receivable at June 30, 2018 and 2017, were \$191,683, and \$200,914, respectively. Grants receivable was comprised of amounts due within one year from various grantors of \$161,683, and \$140,914, at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, \$30,000 and \$60,000, respectively, of grants receivable from one grantor was due beyond one year. Management considers all grants receivable to be fully collectible and, accordingly, an allowance for uncollectible grants receivable has not been recorded for either year presented. Provision for uncollectible amounts is determined based upon management's estimate of the likelihood of eventual collection.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

10. Facilities and Equipment

At June 30, facilities and equipment are as follows:

	<u>2018</u>	<u>2017</u>
Non-depreciable:		
Land	\$ 195,000	\$ 195,000
Construction in progress	383,153	83,857
Depreciable:		
Buildings	17,889,417	17,889,417
Exhibits	6,883,707	6,961,579
Furniture and equipment	1,476,144	2,076,863
Land improvements	<u>672,007</u>	<u>855,729</u>
	27,499,428	28,062,445
Accumulated depreciation	<u>(14,610,716)</u>	<u>(14,875,885)</u>
Facilities and equipment, less accumulated depreciation	<u>\$ 12,888,712</u>	<u>\$ 13,186,560</u>

11. Revolving Line of Credit

The Museum has an annually renewable revolving line of credit with First Interstate Bank. There were no outstanding borrowings on this line of credit at June 30, 2018 and 2017. The maximum borrowing capacity on the line of credit is \$500,000 and the interest rate at June 30, 2018 and 2017, was 5.5 percent and 4.75 percent, respectively.

12. Temporarily Restricted Net Assets

At June 30, 2018, temporarily restricted net assets consisted of the following:

Endowments' earnings with use restrictions	\$ 1,146,307
Grants and contributions with use and time restrictions	<u>1,257,422</u>
Total temporarily restricted net assets	<u>\$ 2,403,729</u>

13. Permanently Restricted Net Assets

At June 30, 2018, permanently restricted net assets consisted of the following:

Endowments, principal contributions	\$ 1,601,112
Cash and cash equivalents	<u>2,830</u>
Total permanently restricted net assets	<u>\$ 1,603,942</u>

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

14. 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, 2018 and 2017, the Museum contributed \$35,798 and \$25,412, respectively, to the program.

15. 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, 2018 and 2017.

16. 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.

17. Reclassification of Prior Year Presentation

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

18. 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, 2017, from which the summarized information is derived.

HIGH DESERT MUSEUM
NOTES TO FINANCIAL STATEMENTS

19. 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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018				Total 2017
	Program Services	Support Services		Total	
		Management and General	Fundraising		
Personnel expenses					
Salaries and wages	\$ 1,692,710	\$ 173,080	\$ 196,122	\$ 2,061,912	\$ 1,885,767
Payroll taxes	155,204	12,830	14,815	182,849	175,653
Employee benefits	191,370	18,537	22,882	232,789	240,701
Pension	25,560	5,335	4,903	35,798	25,412
Total personnel expenses	<u>2,064,844</u>	<u>209,782</u>	<u>238,722</u>	<u>2,513,348</u>	<u>2,327,533</u>
Operating expenses					
Advertising and promotion	246,575	-	7,694	254,269	251,265
Computer systems	73,520	4,340	15,359	93,219	75,169
Contract services	246,413	2,342	17,133	265,888	156,901
Dues and fees	16,260	1,976	879	19,115	22,862
Insurance	123,725	609	2,408	126,742	112,282
Miscellaneous	377	2	7	386	2,450
Operating supplies	177,545	1,198	5,663	184,406	207,588
Photography and art	10,009	-	-	10,009	27,224
Postage and freight	24,514	156	11,956	36,626	45,648
Printing and reproduction	29,732	554	12,972	43,258	50,253
Professional fees	41,129	2,285	2,285	45,699	45,119
Rental expenses	73,713	66	66	73,845	57,322
Repairs and maintenance	131,817	7,042	7,042	145,901	144,530
Service charges	41,206	2,567	10,213	53,986	63,766
Staff development	58,734	1,388	3,753	63,875	38,444
Telephone	15,432	575	1,845	17,852	16,576
Travel	23,150	501	10,708	34,359	31,854
Utilities	176,048	9,780	9,780	195,608	211,389
Total operating expenses	<u>1,509,899</u>	<u>35,381</u>	<u>119,763</u>	<u>1,665,043</u>	<u>1,560,642</u>
Total expenses before depreciation and amortization	3,574,743	245,163	358,485	4,178,391	3,888,175
Depreciation and amortization	<u>635,365</u>	<u>3,542</u>	<u>12,483</u>	<u>651,390</u>	<u>627,235</u>
Total expenses after depreciation and amortization	<u>\$ 4,210,108</u>	<u>\$ 248,705</u>	<u>\$ 370,968</u>	<u>\$ 4,829,781</u>	<u>\$ 4,515,410</u>