

MUSEUM OF VENTURA COUNTY

**Financial Statements
Years Ended
September 30, 2017 and 2016**

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Museum of Ventura County
Ventura, California

We have audited the accompanying financial statements of the Museum of Ventura County (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the Museum of Ventura County as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lindsay and Company LLP

Lindsay and Company, LLP

Certified Public Accountants

Ventura, California

June 14, 2018

MUSEUM OF VENTURA COUNTY

Statement of Financial Position September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and equivalents	\$ 335,486	\$ 271,608
Grants receivable	81,693	
Pledges receivable (net of present value discount of \$14,010 and \$126,747, respectively)	941,777	597,001
Inventory	5,533	29,820
Prepaid expenses and deposits	54,369	47,257
Fixed assets, net	4,653,393	5,819,014
Investments	2,768,207	2,513,630
Interest in assets held by VCCF	<u>76,489</u>	<u>26,075</u>
TOTAL ASSETS	\$ <u>8,916,947</u>	\$ <u>9,304,405</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 43,205	\$ 14,310
Accrued expenses	38,255	41,210
Other liabilities	9,836	10,946
Deferred revenue	<u>7,485</u>	<u>34,175</u>
TOTAL LIABILITIES	98,781	100,641
 NET ASSETS		
Unrestricted	4,738,193	5,760,085
Temporarily restricted	1,862,144	1,256,081
Permanently restricted	<u>2,217,829</u>	<u>2,187,598</u>
TOTAL NET ASSETS	<u>8,818,166</u>	<u>9,203,764</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>8,916,947</u>	\$ <u>9,304,405</u>

See accompanying notes and independent auditor's report

MUSEUM OF VENTURA COUNTY
Statement of Activities and Changes in Net Assets
For the years ended September 30, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
SUPPORT				
City, county and federal support	\$ 121,052	\$ -	\$ -	\$ 121,052
Other grants	-	112,000	-	112,000
Contributions & bequests	452,161	217,108	40,231	709,500
Contributions friends & member campaign	82,068	-	-	82,068
Membership dues	74,406	-	-	74,406
Community & special events	475,070	475,110	-	950,180
Net assets released from restrictions	<u>321,658</u>	<u>(311,658)</u>	<u>(10,000)</u>	<u>-</u>
TOTAL SUPPORT	<u>1,526,415</u>	<u>492,560</u>	<u>30,231</u>	<u>2,049,206</u>
REVENUE				
Sales	19,974	-	-	19,974
Special programs & admissions	47,358	1,000	-	48,358
Venue rental, net	62,431	-	-	62,431
Net realized and unrealized gains (losses) on long term investments	4,437	254,237	-	258,674
Investment Income, net	<u>21,689</u>	<u>18,280</u>	<u>-</u>	<u>39,969</u>
TOTAL REVENUE	<u>155,889</u>	<u>273,517</u>	<u>-</u>	<u>429,406</u>
TOTAL SUPPORT AND REVENUE	<u>1,682,304</u>	<u>766,077</u>	<u>30,231</u>	<u>2,478,612</u>
EXPENSES				
Program services	1,042,787	-	-	1,042,787
SUPPORTING SERVICES				
General and administrative	340,899	-	-	340,899
Fundraising	<u>284,729</u>	<u>-</u>	<u>-</u>	<u>284,729</u>
TOTAL EXPENSES	<u>1,668,415</u>	<u>-</u>	<u>-</u>	<u>1,668,415</u>
CHANGES IN NET ASSETS				
BEFORE ASSET WRITE-OFFS	13,889	766,077	30,231	810,197
Inventory write-off	(18,707)	-	-	(18,707)
Pledge receivable write-off	(17,513)	(92,000)	-	(109,513)
Construction in progress write-off	<u>(999,561)</u>	<u>(68,014)</u>	<u>-</u>	<u>(1,067,575)</u>
CHANGES IN NET ASSETS	(1,021,892)	606,063	30,231	(385,598)
NET ASSETS - BEGINNING	<u>5,760,085</u>	<u>1,256,081</u>	<u>2,187,598</u>	<u>9,203,764</u>
NET ASSETS - ENDING	<u>\$ 4,738,193</u>	<u>\$ 1,862,144</u>	<u>\$ 2,217,829</u>	<u>\$ 8,818,166</u>

See accompanying notes and independent auditor's report

MUSEUM OF VENTURA COUNTY
Statement of Activities and Changes in Net Assets
For the years ended September 30, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
SUPPORT				
City, county and federal support	\$ 70,000	\$ 29,759	\$ -	\$ 99,759
Other grants	57,277	88,506	-	145,783
Contributions and bequests	311,768	56,610	30,479	398,857
Contributions friends and members campaign	42,985	-	-	42,985
Membership dues	97,175	-	-	97,175
Community and special events	273,043	-	-	273,043
Net assets released from restrictions	<u>646,957</u>	<u>(646,957)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT	<u>1,499,205</u>	<u>(472,082)</u>	<u>30,479</u>	<u>1,057,602</u>
REVENUE				
Sales	51,113	-	-	51,113
Special programs & admissions	50,516	12,100	-	62,616
Venue rental, net	78,369	-	-	78,369
Net realized and unrealized gains (losses) on investments	1,784	188,242	-	190,026
Other investment income, net	<u>902</u>	<u>20,397</u>	<u>-</u>	<u>21,299</u>
TOTAL REVENUE	<u>182,684</u>	<u>220,739</u>	<u>-</u>	<u>403,423</u>
TOTAL SUPPORT AND REVENUE	<u>1,681,889</u>	<u>(251,343)</u>	<u>30,479</u>	<u>1,461,025</u>
EXPENSES				
Program services	1,066,427	-	-	1,066,427
SUPPORTING SERVICES				
General and administrative	393,137	-	-	393,137
Fundraising	<u>299,211</u>	<u>-</u>	<u>-</u>	<u>299,211</u>
TOTAL EXPENSES	<u>1,758,775</u>	<u>-</u>	<u>-</u>	<u>1,758,775</u>
CHANGES IN NET ASSETS				
BEFORE ACCRUED EXPENSE AND GRANT WRITE-OFF				
Accrued property tax write-off	(76,886)	(251,343)	30,479	(297,750)
Grant receivable write-off	117,984	-	-	117,984
	<u>-</u>	<u>(401,557)</u>	<u>-</u>	<u>(401,557)</u>
CHANGES IN NET ASSETS	41,098	(652,900)	30,479	(581,323)
NET ASSETS - BEGINNING	<u>5,718,987</u>	<u>1,908,981</u>	<u>2,157,119</u>	<u>9,785,087</u>
NET ASSETS - ENDING	<u>\$ 5,760,085</u>	<u>\$ 1,256,081</u>	<u>\$ 2,187,598</u>	<u>\$ 9,203,764</u>

See accompanying notes and independent auditor's report

MUSEUM OF VENTURA COUNTY
Statement of Functional Expenses
For the years ended September 30, 2017 and 2016

	2017			
	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Computer and IT costs	\$ 22,476	\$ 11,719	\$ 6,212	\$ 40,407
Contract services	12,540	23,220	70,874	106,634
Cost of sales	37,716	-	-	37,716
Cost of community programs	43,795	-	-	43,795
Depreciation	170,737	13,738	11,775	196,250
Employee benefits	58,700	30,606	16,223	105,529
Exhibit, collection and program	44,287	-	-	44,287
Fundraising	-	-	63,295	63,295
Marketing and publications	90,304	-	-	90,304
Miscellaneous	60,393	31,489	16,690	108,572
Occupancy	170,895	13,750	11,786	196,431
Professional fees	-	51,449	-	51,449
Property taxes	17,302	1,392	1,193	19,887
Salaries, wages, other compensation	<u>313,642</u>	<u>163,536</u>	<u>86,681</u>	<u>563,859</u>
TOTAL EXPENSES	<u>\$ 1,042,787</u>	<u>\$ 340,899</u>	<u>\$ 284,729</u>	<u>\$ 1,668,415</u>

See accompanying notes and independent auditor's report

MUSEUM OF VENTURA COUNTY
Statement of Functional Expenses
For the years ended September 30, 2017 and 2016

	<u>2016</u>			<u>Total Expenses</u>
	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	
Computer costs	\$ 20,521	\$ 7,893	\$ 3,157	\$ 31,571
Contract services	5,835	27,773	81,519	115,127
Cost of sales	32,590	-	-	32,590
Costs of special programs	11,845	-	-	11,845
Depreciation	188,538	20,949	-	209,487
Employee benefits	90,151	29,025	20,185	139,361
Exhibit, collection and program	27,989	-	-	27,989
Fundraising	-	-	80,549	80,549
Marketing and publications	16,789	-	-	16,789
Miscellaneous	30,425	68,193	6,295	104,913
Occupancy	191,531	34,838	6,968	233,337
Professional services	-	58,713	-	58,713
Property taxes	1,186	1,186	-	2,372
Salaries and wages	<u>449,027</u>	<u>144,567</u>	<u>100,538</u>	<u>694,132</u>
TOTAL EXPENSES	\$ <u>1,066,427</u>	\$ <u>393,137</u>	\$ <u>299,211</u>	\$ <u>1,758,775</u>

See accompanying notes and independent auditor's report

MUSEUM OF VENTURA COUNTY
Statement of Cash Flows
For the years ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (385,598)	\$ (581,323)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	196,250	209,487
(Increase) in value of assets held by Ventura County Community Foundation	(50,414)	(194)
Pledges & grants discounts	(112,737)	(131,059)
Net realized and unrealized (gains) from long term investments	(258,674)	(190,026)
Grant receivable write-off	-	500,000
Pledge receivable write-off	109,513	-
Write-off construction in progress	1,067,575	-
(Increase)/ Decrease in:		
Pledges and grants receivable	(423,245)	264,046
Inventories and prepaid expenses	17,175	(3,896)
Increase/ (Decrease) in:		
Accounts payable	28,895	(40,221)
Deferred revenues	(26,690)	11,975
Accrued expenses and other liabilities	(4,065)	(128,382)
TOTAL ADJUSTMENTS	543,583	491,730
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	157,985	(89,593)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment	2,897,885	2,910,030
Purchase of investment	(2,893,788)	(2,887,331)
Purchase of property and equipment	(98,204)	(24,917)
NET CASH (USED IN) INVESTING ACTIVITIES	(94,107)	(2,218)
CASH FLOWS FROM FINANCING ACTIVITIES	NONE	NONE
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,878	(91,811)
BEGINNING CASH AND CASH EQUIVALENTS	271,608	363,419
ENDING CASH AND CASH EQUIVALENTS	\$ 335,486	\$ 271,608
NON-CASH TRANSACTIONS		
Pledge payments and donations made by stock	\$ 122,847	\$ 94,435
SUPPLEMENTAL DISCLOSURES		
Non-cash contributions	\$ 25,257	\$ 37,385

See accompanying notes and independent auditor's report

NOTES TO THE FINANCIAL STATEMENTS

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements September 30, 2017 and 2016

Note 1: Summary of significant accounting policies

Nature of Activities - The Museum of Ventura County, a charitable corporation, was originally incorporated in 1957 under the name of the Ventura County Historical Society. The name Museum of Ventura County was officially adopted in 2007. The mission of the Museum is to celebrate, preserve and interpret the art, history and culture of Ventura County, the California Channel Islands and the surrounding region through collections, exhibitions, events, education programs, publications and its research library, and to serve as a gathering place for the community (Adopted June 2009). The Museum is governed by an 11 member Board of Directors and is administered by a Chief Executive Officer.

Collections - The Museum first opened in 1913, to display the artifact collections of pioneer Dr. Cephas Bard. Over the intervening years, the collections have grown to include over 30,000 artifacts relating to the history of Ventura County from prehistory to the present, over 120,000 books, photographs, documents, maps and periodicals in the Research Library collection, and over 1,000 artworks by regional artists including the 200-piece collection of George Stuart Historical Figures.

Donated Collection Items - In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, the Museum does not capitalize donated works of art or recognize them as revenues or gains. Such donations need not be recognized if they are added to collections that are held for public exhibitions, education, or research for the purpose of public service rather than financial gain; are protected, kept unencumbered, cared for, preserved and are subject to a policy that requires the proceeds from the sale of collection items (deaccessioned objects) to be used for the acquisition of other collection items.

Basis of Accounting - The Museum prepares its financial statements on the accrual basis of accounting.

Financial Statement Presentation - The Museum reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. Temporarily restricted net assets are those whose use by the Museum have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors as endowments to be maintained in perpetuity.

Earnings on both permanently restricted and temporarily restricted net assets are reported as an increase in temporarily restricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions".

Fair Value Measurement - The carrying amounts of all financial instruments presented on the statement of financial position approximated their fair value as of September 30, 2017 and 2016.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the Museum considers all restricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Pledges Receivable - Contributions, including promises to give, are recognized as revenues in the period the pledge is received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which promises are to be received.

(Continued)

See accompanying independent auditor's report

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements September 30, 2017 and 2016

Note 1: Summary of significant accounting policies (Continued)

Pledges Receivable (continued)- The Museum uses the specific write-off method to account for uncollectible promises to give. The decision to write off a pledge receivable is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible promises to give at September 30, 2017 and 2016, as management believes that all pledges not written off will be collected.

Inventories – Inventories, which consist of retail merchandise, are valued at the lower of cost (FIFO - first-in, first-out) or market.

Property and Equipment – Property and equipment with service lives extending over one year are recorded at cost if purchased, or fair value if contributed, and depreciated over their estimated useful lives, ranging from three to forty years, using the straight-line method. Minor additions and improvements are expensed in the year incurred. The Museum capitalizes all property and equipment valued greater than \$1,500.

Endowment Funds / Investment Policy - The Museum's Board of Directors recommends all investment policies for its endowment funds. Currently, the Board's goal is to ensure that capital is preserved, and simultaneously ensure that the Museum's mission is fulfilled. Thus the Museum's return objectives are to generate investment income sufficient to support the Museum's mission and to cover for inflation over time. The Museum's endowed investments are managed by professional investment managers, and the Museum's endowments are invested in a prudently diverse portfolio.

Deferred Revenue - The balance in the deferred revenue accounts at September 30, 2017 and 2016 represents deposits paid by community members to reserve the museum's event facility for weddings, memorials and other gatherings.

Donated Assets and Services

Donated Assets - Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services - The Museum records donated services that either a) create or enhance a nonfinancial asset, or b) require specialized skills and are provided by persons possessing those skills (and would need to be purchased if they were not donated), at their fair value. These amounts are reported as unrestricted contributions on the statement of activities.

Volunteers, acting-as docents, office workers, and gift shop personnel, contributed approximately 5,657 and 9,500 hours of time to the Museum for the years ended September 30, 2017 and 2016, respectively. The value of this contributed time is not reflected in these financial statements.

Allocated Expenses - Expenses by function have been allocated among program and supporting services on the basis of time records and estimates made by the Museum's management.

Advertising - Advertising costs are expensed as incurred.

Subsequent Events - Subsequent events have been evaluated through June 14, 2018, which is the date the financial statements were available to be issued.

(Continued)

See accompanying independent auditor's report

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements
September 30, 2017 and 2016

Note 1: Summary of significant accounting policies (Continued)

Income Taxes – The Museum is a not-for profit organization that is generally exempt from Federal and California income taxes under Section 501(c)(3) and Section 23701d, respectively. In addition the Museum has been classified as an organization that is not a private foundation under Section 590(a)(1). Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Museum did not have any unrelated business income taxes for the years ended September 30, 2017 and 2016.

In 2009, the Museum adopted the recognition requirements for uncertain income tax positions as required by Generally Accepted Accounting Principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Museum has analyzed tax positions taken on filings with the Internal Revenue Service and State of California. The Museum believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Museum's financial condition, results of operations or cash flows. Accordingly, the Museum has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at September 30, 2017 and 2016.

The Museum is subject to routine audits by taxing jurisdictions; however there are currently no audits for any periods in progress. The Museum believes it is no longer subject to income tax examinations for years prior to tax year 2013.

Use of Estimates – The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates used in preparing these financial statements include:

- Allocation of certain expenses by function
- Depreciable lives and estimated residual value of property and equipment
- Allowance for doubtful pledges receivable
- Present value discount for pledges and grants receivable

See accompanying independent auditor's report

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements
September 30, 2017 and 2016

Note 2: Fair Value Measurements

The carrying amounts of financial instruments, including cash, investments and promises to give, have the following approximate fair value as of September 30, 2017 and 2016:

	Fair Value	2017	
		Quoted Prices in Active Markets for Identical (Level One)	Significant Unobservable Inputs (Level Three)
Cash and Certificates of Deposit	\$ 335,486	\$ 335,486	\$ -
Bonds	355,578	355,578	-
Stocks, mutual funds & mmkt	2,412,629	2,412,629	-
Interest in assets held by VCCF	76,489	-	76,489
Pledges receivable, net	941,777	-	941,777
Grants receivable, net	81,693	-	81,693
	<u>\$ 4,203,652</u>	<u>\$ 3,103,693</u>	<u>\$ 1,099,959</u>

	Fair Value	2016	
		Quoted Prices in Active Markets for Identical (Level One)	Significant Unobservable Inputs (Level Three)
Cash and Certificates of Deposit	\$ 271,608	\$ 271,608	\$ -
Bonds	333,038	333,038	-
Stocks, mutual funds & mmkt	2,180,592	2,180,592	-
Interest in assets held by VCCF	26,075	-	26,075
Pledges receivable, net	597,001	-	597,001
	<u>\$ 3,408,314</u>	<u>\$ 2,785,238</u>	<u>\$ 623,076</u>

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets and has the highest priority, and Level 3 inputs have the lowest priority. The Museum uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Museum measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 1 - Fair Value Measurements

The fair value of corporate stock, Mutual funds, and bonds, are based on quoted net asset values of the shares held by the Museum at the year end.

Level 3 - Fair Value Measurements

The pledges receivable are not actively traded and significant other observable inputs are not available. Thus, the fair value of pledges receivable is equal to the present value of the pledges receivable using a discount factor based on the U.S. Treasury risk free rate of return. The following table provides further details of the Level 3 fair value measurements.

(Continued)

See accompanying independent auditor's report

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements September 30, 2017 and 2016

Note 2: Fair Value Measurements (Continued)

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

	<u>Pledges Receivable</u>	<u>Grants Receivable</u>	<u>Assets in VCCF</u>
September 30, 2017			
Beginning balance	\$ 597,001	-	\$ 26,075
Recognize Forum of the Arts Endowment	-	-	47,007
Additional pledges/grants	701,699	\$ 81,693	-
Pledge payments received	(360,147)	-	-
Pledge receivable write-off	(109,513)	-	-
Change in present value discount reported in statement of activities	112,737	-	-
Gain or Loss included in change of net assets	-	-	3,407
Ending balance	<u>\$ 941,777</u>	<u>\$ 81,693</u>	<u>\$ 76,489</u>
September 30, 2016			
Beginning balance	\$ 828,430	\$ 401,557	\$ 25,881
Additional pledges	47,520	-	-
Pledge payments received/write-offs	(311,566)	(500,000)	-
Change in present value discount reported in statement of activities	32,617	98,443	-
Gain or loss included in change of net assets	-	-	194
Ending balance	<u>\$ 597,001</u>	<u>\$ -</u>	<u>\$ 26,075</u>

Note 3: Unconditional promises to give and grants receivable

The Museum had unconditional promises to give from the Expansion Fund, the Ag Museum Capital Campaign, The Dream Makers Campaign and the Second Century Campaign of \$941,777 and \$597,001 at September 30, 2017 and 2016, respectively. The Museum had grants receivable of \$81,693 at September 30, 2017. Estimated collections on the pledges and grants receivable are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in one year or less	\$ 388,907	\$ 214,685
Receivable in two to five years	648,573	374,103
Receivable in greater than five years	-	134,960
	<u>1,037,480</u>	<u>723,748</u>
Less: net present value discount	<u>(14,010)</u>	<u>(126,747)</u>
Net unconditional promises to give	<u>\$ 1,023,470</u>	<u>\$ 597,001</u>

See accompanying independent auditor's report

MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements
September 30, 2017 and 2016

Note 4: Property and Equipment

Property and equipment at September 30, 2017 and 2016 consisted of:

	Estimated Life	2017	2016
Buildings and Improvements	10 - 40 Years	\$ 6,547,990	\$ 6,541,596
Equipment	3 - 10 Years	584,442	492,632
Construction in progress		-	1,067,575
		7,132,432	8,101,803
Less: Accumulated depreciation		2,479,039	2,282,789
Total Property and Equipment		\$ 4,653,393	\$ 5,819,014

Depreciation expense for the years ended September 30, 2017 and 2016 was \$196,250 and \$209,487, respectively.

During the year ended September 30, 2017, the Board and management evaluated the costs previously capitalized as construction in progress at both the Ventura Museum and the Agricultural Museum. It was determined that these costs are associated with designs that are obsolete and no longer have utility or value to either Museum. Based on this evaluation the Board of Directors voted to write off the total balance of construction in progress, \$1,067,575, as of September 30, 2017.

Note 5: Long term investments

At September 30, 2017 and 2016, long-term investments were comprised of the following:

		2017		
		Cost	Fair Market Value	Unrealized Gain(Loss)
Bonds		\$ 349,208	\$ 355,578	\$ 6,370
Stocks, mutual funds and money market funds		2,208,394	2,412,629	204,235
Total Investments		\$ 2,557,602	\$ 2,768,207	\$ 210,605
		2016		
		Cost	Fair Market Value	Unrealized Gain(Loss)
Bonds		\$ 329,785	\$ 333,038	\$ 3,253
Stocks, mutual funds and money market funds		2,080,254	2,180,592	100,338
Total Investments		\$ 2,410,039	\$ 2,513,630	\$ 103,591

(continued)

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MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements September 30, 2017 and 2016

Note 5: Long term investments (continued)

The following schedule summarizes the investment return (loss) for the years ended September 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 35,451	\$ 34,093
Realized and unrealized gains	258,674	190,026
Other investment income	36,307	15,505
Investment expense	(31,789)	(28,299)
TOTAL	\$ 298,643	\$ 211,325

Note 6: Temporarily restricted net assets

Temporarily restricted net assets were available for the following purposes at September 30:

	2017	2016
Donor restrictions - Operating Fund	\$ 226,748	\$ 20,070
Ag Museum Activities - Ag Operating and Museum Funds	620,992	629,962
Ag Museum Activities - Ag Endowment Fund	72,168	-
Building expansion - Expansion Fund	340,807	(46,577)
Art-related activities - McFarland Fund	98,451	102,464
Museum activities - Endowment Fund	447,487	512,550
Collectors Council	55,491	37,612
	\$ 1,862,144	\$ 1,256,081

During the years ended September 30, 2017 and 2016, the following net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by donors:

	2017	2016
Donor restrictions - Operating and Ag Fund	\$ 267,094	\$ 591,471
Endowment earnings	29,724	29,459
Art related activities	24,840	26,027
Total restrictions released	\$ 321,658	\$ 646,957

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MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements
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Note 7: Permanently restricted net assets

When donors restrict the principal portion of their gifts to be held in perpetuity, the Museum classifies these donations as permanently restricted. The income from permanently restricted net assets is recorded as temporarily restricted until appropriated from expenditure in accordance with the donor's instruction. The permanently restricted net assets are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Art related activities - McFarland Fund	\$ 722,599	\$ 722,599
Museum activities - Endowment Fund	1,458,844	1,436,613
Ag Museum activities - Ag Endowment	<u>36,386</u>	<u>28,386</u>
Total permanently restricted net assets	<u>\$ 2,217,829</u>	<u>\$ 2,187,598</u>

Changes in Endowment Net Assets for the Fiscal Years Ended:

	<u>2017</u>	<u>2016</u>
Net assets, beginning of year	\$ 2,187,598	\$ 2,157,119
Investment return:		
Investment income	47,606	47,093
Net appreciation/depreciation (realized and unrealized)	<u>143,674</u>	<u>203,110</u>
	2,378,878	2,407,322
New gifts	40,231	30,479
Appropriation of endowment assets for expenditure	(171,770)	(222,825)
Other changes	<u>(29,510)</u>	<u>(27,378)</u>
NET ASSETS, END OF YEAR	<u>\$ 2,217,829</u>	<u>\$ 2,187,598</u>

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MUSEUM OF VENTURA COUNTY

Notes to the Financial Statements September 30, 2017 and 2016

Note 8: Deaccessed collection items

No collection items of material value were deaccessed during the years ended September 30, 2017 and 2016.

Note 9: Endowments held at Ventura County Community Foundation

Forum of the Arts

In prior years, the Museum transferred \$20,000 to Ventura County Community Foundation (VCCF) to establish an endowment to benefit the Museum's charitable and educational purposes. In 1992 the Museum established a charitable endowment at VCCF to provide grants to artists using funds transferred to the Museum upon the dissolution of the Forum of the Arts. Under the terms of both agreements the Museum can request an annual payout from the Foundation up to a limit set forth by the Board of Directors of the Foundation (currently the amount is based on the fund's annual earnings, net of fees). These funds are held by the Foundation as the Foundation's component fund and the Foundation has the variance power to these funds. That power gives the Foundation the right to distribute the investment income to another not-for-profit organization of its choice if the Museum ceases to exist or if the governing board of the Foundation votes that support of the Museum (a) is no longer necessary or (b) is inconsistent with the needs of the Ventura County Community. The Foundation is the legal owner of all assets held in the component fund and while the Museum cannot withdraw any portion of the amount transferred and any appreciation on those transferred assets, for reporting purposes, these funds are reported as an asset of the Museum in conformity with accounting principles accepted in the United States of America. This fund was previously treated as a beneficial interest only, but during the fiscal year ended September 30, 2017, management reviewed the original documents and determined that was not accurate and recorded the entire balance of the fund, at \$47,007, on the books of the Museum. This is reflected in the fair value table in footnote 2.

The Museum is the beneficiary of several Endowment Funds held by the Ventura County Community Foundation (VCCF). The Museum is entitled to the income produced by the endowments annually, but has no control over or access to the principal. The Endowment Funds held at VCCF are as follows:

VCMHA Smith Gallery Endowment Fund

The income from the endowment shall be used primarily to support the purchase, maintenance and restoration of the Museum's collection of George Stuart historical figures and/or repairs or improvements to the Fred W. Smith Gallery. If the needs of the primary purpose are met and funds remain, these may be used for other activities or needs of the Museum. The Museum is entitled to the income produced by the endowment annually, but has no control over or access to the principal. The balance of this endowment fund was \$156,117 and \$147,387 on September 30, 2017 and 2016, respectively.

The Berry Research Library Endowment Fund

The Museum is entitled to the income produced by the endowment annually, but has no control over or access to the principal. The income from this fund is restricted and is only to be used to enrich and expand the Museum library programs and services. The balance of this endowment fund was \$268,590 and \$250,845 on September 30, 2017 and 2016, respectively.

The Myra and Ronald Bank Family Fund

The income from this endowment is for the unrestricted use of the Museum. In accordance with VCCF's current spending policy, the Museum is entitled to distributions from the fund annually, based on the fund's annual earning, net of fees. The amount recognized as a beneficial interest in the endowment fund held by VCCF was \$66,267 and \$62,562 at September 30, 2017 and 2016, respectively.

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MUSEUM OF VENTURA COUNTY
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Note 10: Lease obligations

The Museum entered into an agreement to lease the land on which the Museum is built from the City of San Buenaventura. The term of the lease is ninety-nine years commencing September 1, 1975, and the annual rent is one dollar.

The Museum leased office space from Westven Plaza, LLC at 56 East Main Street for \$3,662 per month. In December, 2013 the lease was renewed through December 31, 2016 with no change in terms. On September 29, 2016 the Museum vacated the leased office space with the landlord's agreement, another tenant was found to take over the remaining three months on the lease and all staff relocated to the Ventura Museum.

Effective December 2006, the Museum entered into an agreement with the Ventura County Transportation Commission to lease the historic Mill building and underlying property in Santa Paula for the sole purpose of operating and maintaining a Farm Heritage Museum. The term of the lease is ninety-nine years commencing from the date of the Notice to Occupancy, and the annual rent is one dollar.

The Museum also rents various storage facilities for its art and library collections and other items at a cost of \$33,978 and \$28,124 for fiscal years ended September 30, 2017 and 2016, respectively.

Note 11: Related party activity

During years ended September 30, 2017 and 2016, a board member of the Museum was also a member of the board of one of the storage facilities from which the Museum rents storage space. During both years, the Museum received a significant discount on the monthly rental cost, which amounted to approximately \$8,000 and \$7,500 for the years ended September 30, 2017 and 2016, respectively.

Note 12: Endowment Fund

During the year ended September 30, 2011, the board of directors approved limited borrowing from the Endowment Fund to cover necessary operating expenses. This was a result of the adverse economic conditions which significantly affected unrestricted donations over the past several years. The total amount borrowed was \$100,000. Repayment terms of the note include interest only payments at the rate of the greater of 2% per annum or the actual average annual rate of return, determined on a fiscal year basis, on all investments in the Museum of Ventura County Endowment Fund. On September 30, 2016, by unanimous vote of the Board of Directors, the terms of the note were extended an additional five years. The entire balance of principal is now due and payable on September 30, 2021. At September 30, 2017 and 2016 all repayment terms have been met, and the note balance was \$58,400.

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MUSEUM OF VENTURA COUNTY
Notes to the Financial Statements
September 30, 2017 and 2016

Note 13: Concentration of credit risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Deposits at times may exceed amounts covered by insurance provided by the U. S. Federal Deposit Insurance Corporation (FDIC) of \$250,000. Management believes there is no significant risk with respect to these deposits.

Note 14: Going Concern

Prior to the 2016-2017 fiscal year, the Museum had been in a pattern of deficit-spending for several years which caused uncertainty as to the Museum's ability to continue as a going concern. During the fiscal year ended September 30, 2017, the Museum was able to increase revenues and reduce spending, resulting in a positive cash flow, indicating some success in their ongoing efforts to make the Museum a sustainable organization. Much of the increased revenue is the result of the new fundraising campaign, "Second Century", which is expected to generate cash flows over a five year period. The Museum also successfully obtained new one-time grants from the City and County of Ventura for \$125,000 each.

For the 2017-2018 fiscal year, the board of directors has again adopted a budget with significantly reduced revenue and expenses, which reflects the Museum's commitment to move away from deficit spending and pursue a sustainable economic path. In addition, the Museum has obtained: a \$950,000 grant from the City of Ventura, to be received over the next five years; a new \$1,000,000 endowment which will begin realizing revenues in October 2019 and from which the Museum has immediate access to \$50,000; and a \$1,300,000 cash grant from the County of Ventura to be received over the next five years along with an in-kind grant from the County of a five-year lease valued at \$75,000 per year.

Management and the board have continued to refine and implement the sustainability plan which was created in the 2015-2016 fiscal year to mitigate the recent circumstances that cast doubt on the Museum's ability to continue as a going concern. Based on successful implementation of the plan, and the continued commitment of the Board and management to generate new revenue sources, it appears probable that the plan will mitigate the circumstances causing the going concern uncertainty. The accompanying financial statements have been prepared on the basis of the Museum's status as a going concern.

See accompanying independent auditor's report