

***Museum of  
Contemporary Art  
San Diego***

*Financial Statements as of and for the Year  
Ended June 30, 2016 (With Comparative  
Summarized Financial Information for the Year  
Ended June 30, 2015), Independent Auditors'  
Report, and Supplemental Schedules for the  
Year Ended June 30, 2016*

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee of  
**Museum of Contemporary Art San Diego**  
La Jolla, CA

We have audited the accompanying financial statements of the **Museum of Contemporary Art San Diego** (the "Museum"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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.

### ***Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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.



### ***Report on Summarized Comparative Information***

We have previously audited the Museum's 2015 financial statements, and our report dated November 16, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses and schedule of budgeted and actual expenditures of City funds 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.

*Mayer Hoffman McCann P.C.*

San Diego, California  
November 10, 2016

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 2016

(With Comparative Summarized Financial Information for the Year Ended June 30, 2015)

ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 2,075,297	\$ 1,747,229
Unrestricted investments	2,216,189	2,636,720
Accounts receivable	63,619	52,705
Pledges and grants receivable - current portion	1,588,951	324,356
Inventory	370,144	406,780
Prepaid expenses and current other assets	217,261	233,395
Total current assets	6,531,461	5,401,185
Non-Current Assets:		
Pledges and grants receivable - long-term portion	5,995,896	1,557,769
Property and equipment - net	33,548,914	34,434,524
Restricted cash and investments	30,987,782	33,938,040
Deferred financing costs - net	281,970	297,351
Other assets	122,598	125,569
	\$ 77,468,621	\$ 75,754,438
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 888,740	\$ 660,780
Deferred revenue - current portion	713,923	925,174
Capital leases - current portion	27,264	25,929
Total current liabilities	1,629,927	1,611,883
Non-Current Liabilities:		
Deferred compensation	809,739	679,026
Deferred revenue - long-term portion	740,793	750,951
Long-term debt	3,750,000	4,550,000
Capital leases - long-term portion	44,758	72,020
Total liabilities	6,975,217	7,663,880
Net Assets:		
Unrestricted	16,697,162	20,303,840
Temporarily restricted	13,128,128	7,574,793
Permanently restricted	40,668,114	40,211,925
Total net assets	70,493,404	68,090,558
	\$ 77,468,621	\$ 75,754,438

The accompanying notes are an integral part of these financial statements.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

(With Comparative Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
<b>SUPPORT AND REVENUES:</b>					
<b>SUPPORT:</b>					
Contributions	\$ 1,721,268	\$ 7,022,312	\$ 456,189	\$ 9,199,769	\$ 3,075,686
City and County of San Diego grants	479,808	-	-	479,808	347,944
State and Federal grants	-	39,700	-	39,700	70,557
Net assets released from restrictions	1,478,389	(1,478,389)	-	-	-
Total support	3,679,465	5,583,623	456,189	9,719,277	3,494,187
<b>REVENUES:</b>					
Special events	2,605,310	-	-	2,605,310	913,526
Unrealized gain/(loss) on investments	(1,469,574)	(136,470)	-	(1,606,044)	(2,635,040)
Dividend and interest income	764,172	73,136	-	837,308	863,623
Membership	605,639	-	-	605,639	592,917
Auditorium/Museum space rental	422,763	-	-	422,763	379,164
Realized gain on investments	334,255	33,046	-	367,301	1,955,755
Other income	288,313	-	-	288,313	303,774
Museum beverage service ("MBS")	211,649	-	-	211,649	178,649
Museum store sales	194,591	-	-	194,591	187,654
Touring exhibit fees	170,427	-	-	170,427	123,000
Admission fees	159,382	-	-	159,382	137,256
Publication sales	62,331	-	-	62,331	579
Educational programs and lectures	57,573	-	-	57,573	25,716
Total revenues	4,406,831	(30,288)	-	4,376,543	3,026,573
Total support and revenues	8,086,296	5,553,335	456,189	14,095,820	6,520,760
<b>EXPENSES:</b>					
<b>Program services:</b>					
Exhibitions	2,460,696	-	-	2,460,696	2,565,666
Permanent collection, circulation and accession	1,561,280	-	-	1,561,280	1,573,911
Auditorium/Museum space rental	667,855	-	-	667,855	617,292
Membership support	589,304	-	-	589,304	540,987
Education, performances and library	552,943	-	-	552,943	380,976
Curatorial	533,881	-	-	533,881	454,015
Museum stores	317,605	-	-	317,605	233,103
Publications	103,056	-	-	103,056	69,237
Total program services	6,786,620	-	-	6,786,620	6,435,187
<b>Supporting services:</b>					
General and administrative	1,648,086	-	-	1,648,086	1,548,304
Special events	1,620,621	-	-	1,620,621	447,736
Advancement	900,886	-	-	900,886	461,753
Communications	348,562	-	-	348,562	322,937
Building expansion	244,889	-	-	244,889	246,631
Museum beverage service	143,310	-	-	143,310	128,815
Total supporting services	4,906,354	-	-	4,906,354	3,156,176
Total expenses	11,692,974	-	-	11,692,974	9,591,363
CHANGE IN NET ASSETS	(3,606,678)	5,553,335	456,189	2,402,846	(3,070,603)
NET ASSETS - Beginning of year	20,303,840	7,574,793	40,211,925	68,090,558	71,161,161
NET ASSETS - End of year	\$ 16,697,162	\$ 13,128,128	\$ 40,668,114	\$ 70,493,404	\$ 68,090,558

The accompanying notes are an integral part of these financial statements.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

(With Comparative Summarized Financial Information for the Year Ended June 30, 2015)

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,402,846	\$ (3,070,603)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized loss on investments	1,238,743	679,285
Depreciation and amortization	1,159,436	1,177,524
Contributions of stock and securities	(170,329)	(951,407)
Contribution restricted for long-term investments	(456,189)	(344,623)
Loss on disposal	3,152	-
Uncollectible receivables	514,670	-
Changes in assets and liabilities:		
Accounts receivable	(10,914)	(18,478)
Pledges and grants receivable	(6,217,392)	(36,365)
Inventory	36,636	(18,991)
Prepaid expenses and other assets	19,105	(76,445)
Accounts payable and accrued expenses	178,611	86,474
Deferred revenue	(197,987)	341,438
Deferred compensation	130,713	118,509
Net cash used in operating activities	<u>(1,368,899)</u>	<u>(2,113,682)</u>
Cash Flows From Investing Activities:		
Proceeds from sales of investments	8,397,405	12,343,833
Purchases of investments	(6,095,030)	(9,545,190)
Purchases of property and equipment	(261,597)	(642,780)
Net cash provided by investing activities	<u>2,040,778</u>	<u>2,155,863</u>
Cash Flows From Financing Activities:		
Principal payments on long-term debt	(800,000)	(800,000)
Contributions restricted for long-term use	456,189	344,623
Net cash used in financing activities	<u>(343,811)</u>	<u>(455,377)</u>
Net Change in Cash and Cash Equivalents	<u>328,068</u>	<u>(413,196)</u>
Cash and Cash Equivalents - Beginning of year	<u>1,747,229</u>	<u>2,160,425</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,075,297</u>	<u>\$ 1,747,229</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 18,439</u>	<u>\$ 4,725</u>

### Non-cash Investing and Financing Activities:

During 2015, the Museum acquired approximately \$90,000 of fixed assets under capital leases.

The accompanying notes are an integral part of these financial statements.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities* - The **Museum of Contemporary Art San Diego** (the “Museum”) - one museum with three distinct, complementary locations in San Diego and La Jolla, California - is a visual arts institution with an international constituency. The Museum aims to culturally enrich the lives of residents and visitors from around the world with collections, exhibitions and programs that focus on the art and artists of our time. The general purposes of the Museum are to acquire, exhibit and preserve works of art created since 1950 for the benefit of future generations, to foster the work of living artists and to promote an awareness and appreciation of the value of emerging artistic creativity through an active education program for adults and young people, to present and interpret significant developments in contemporary art, and to offer the public broad, balanced perspectives on contemporary art. The Museum’s programs are supported primarily by contributions and investment returns.

*Basis of Presentation* - The financial statements are presented in accordance with the authoritative guidance related to not-for-profit entities. The authoritative guidance requires that net assets, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted. The Museum distinguishes between contributions that are unrestricted and those that contain donor-imposed restrictions. 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 as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Contributions of goods are recognized in the financial statements if the goods received (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Museum reports such contributions at their estimated fair value when received. Included in unrestricted contributions and related expenses for 2016, is approximately \$1,137,000 of contributed goods and services.

Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and other assets that must be used to acquire long-lived assets are reported as temporarily restricted contributions. Absent explicit donor stipulation about how long these long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – All net assets that are not subject to donor-imposed restrictions are reported as unrestricted net assets.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted. Temporarily restricted net assets are restricted primarily for exhibitions, the acquisition of art works, capital expansion, and time.



**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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*Permanently Restricted Net Assets* – Permanently restricted net assets include gifts which require by donor-imposed restrictions that the corpus is invested in perpetuity and only the investment income be made available for the Museum’s operations in accordance with donor restrictions, if any.

*Grants* - City and County of San Diego grants and other grants are recognized as permanently restricted, temporarily restricted, or unrestricted support, depending on the stipulations of the grant agreements. When a grant restriction expires, stipulated time restrictions end or purpose restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Grants whose restrictions are met in the same reporting period are reported as unrestricted support.

*Pledges and Grants Receivable* - Unconditional promises to give are recorded as pledges receivables, and revenues in the period received. Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts to present value are computed using risk adjusted rates applicable in the years in which those promises are received. Risk adjusted interest rates ranged from approximately 0.67% to 2.06% per annum.

Amortizations of the discounts are included in contributions. Conditional promises to give are not recorded as contributed income until the conditions are substantially met.

*Cash Equivalents* - For financial statement purposes, the Museum considers all highly liquid unrestricted investments with a maturity of three months or less when purchased to be cash equivalents.

*Investments* - Investments are accounted for in accordance with the authoritative guidance. Under the provisions of the authoritative guidance, investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair market value with gains and losses included in the statement of activities. Realized gains or losses recognized on the sale of securities are based upon the original cost of the security, as determined by the specific identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded in the statement of activities as part of current year operations.

During 2016, investments consisted of U.S. government securities and other debt and equity securities and are recorded at fair market value. The fair value of investments in securities traded on national security exchanges is valued at the closing price on the last business day of the fiscal year. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Investments are made according to the Investment Policy Statement adopted by the Museum’s Board of Trustees. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by the Museum for the purpose of providing investment management and consulting.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**Property and Equipment** - Property and equipment is stated at cost or, in the case of donated property and equipment, at fair value at the date of gift, less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets, which is 25 to 50 years for buildings, the lesser of the useful life or the lease term for leasehold improvements, and 3 to 10 years for furniture and equipment. The Museum capitalizes acquisitions of property and equipment in excess of \$1,000.

**Collections** - The permanent collection of the Museum consists of paintings, sculpture, installations, works on paper (including photography), video, and other media.

The cornerstone of any museum is its collection. It is the responsibility of the Museum to acquire objects for its collection, to maintain them for use in exhibitions, education and research, and to preserve the collection in perpetuity. Acquisition and preservation of objects are the primary responsibilities of the Board of Trustees, the executive director and the curatorial staff.

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Charitable Remainder Trusts** - The Museum is a beneficiary of certain trust funds held by others and has recorded an asset for the net present value of the estimated future amount to be received from such trusts. Charitable remainder trusts are trusts established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Upon termination of the trust, the Museum receives the assets remaining in the trust. The present values are calculated by using recent life expectancy tables and risk adjusted discount rates of between 2.24% and 2.51% as of June 30, 2016.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information. The Museum did not receive any new charitable trusts during fiscal year 2016. During 2016, the present value of the expected future benefit to the Museum of these assets decreased by approximately \$88,000. At June 30, 2016, these assets were valued at approximately \$822,000 and are included in the long-term portion of pledges and grants receivable on the statement of financial position.

**Inventory** - Inventory, consisting primarily of merchandise held for sale in the Museum's stores, is carried at the lower of cost, determined principally on a first-in, first-out basis, or market.

**Other Assets** - In December 2008, the Museum purchased a Type 47 Liquor License and established a DBA called Museum Beverage Services. Total costs related to the purchase equaled approximately \$102,000 and consisted of legal, escrow fees, and miscellaneous other costs. These costs were capitalized in accordance with the authoritative guidance and are included in long-term other assets.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the owner. As management has determined that the license has an indefinite life, the Museum has not amortized the license. The Museum performs an impairment analysis, and evaluates the useful life on an annual basis to determine whether events and circumstances continue to support an indefinite useful life and the carrying amount. There was no impairment as of June 30, 2016.

**Deferred Revenue** - Deferred revenue represents amounts collected in advance for exhibitions, membership fees, special events, and rental income. Such amounts are recognized as revenue in the period in which they are earned.

**Deferred Rent** - Rent expense is recorded on a straight-line basis over the term of the lease.

**Income Taxes** - The Museum is a not-for-profit organization and is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. The Museum, however, may be subject to tax on income which is not related to its exempt purpose. The Museum had no unrelated business income tax for the year ended June 30, 2016.

At June 30, 2016, the federal statute of limitation remains open for the 2013 through 2016 years. The statute of limitations for the state income tax returns remains open for the 2012 through 2016 years.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. 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 statement of financial position and the reported amounts of revenues and expenses during years presented. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the estimated future cash flow of charitable remainder trusts, pledges and grants receivables, and deferred liability calculations.

**Credit Risk** - The Museum invests in various types of marketable securities and money market funds, and has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Museum invests in various investment securities, including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The Museum maintains cash balances at banks located in San Diego. Accounts at these institutions are secured up to the Federal Deposit Insurance Corporation limits. At times, balances may exceed federally insured limits. The Museum has not experienced any losses in such accounts. Management believes that the Museum is not exposed to any significant credit risk with respect to its cash and cash equivalents.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**Fair Value Measurements** - Authoritative guidance establishes a common definition for fair value to be applied to generally accepted accounting principles in the U.S. requiring use of fair value, establishes a framework of measuring fair value, and expands disclosures about such fair value measurements.

Fair value is defined as the hypothetical price (excluding transaction costs) that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on the assumptions that market participants would use in pricing the asset or liability.

**Endowment Net Assets** - Authoritative guidance provides direction on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The State of California approved a version of UPMIFA in September 2008 with an effective date of January 1, 2009.

**Prior Year 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 U.S. generally accepted accounting principles. 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 was derived.

**2. INVESTMENTS**

Investments are carried at fair value based on quoted market prices and at June 30, 2016, consisted of the following:

Equity securities	\$ 23,319,983
Fixed income securities	6,297,933
Commodities	1,179,630
Real estate	1,660,737
Cash	745,688
	<u>\$ 33,203,971</u>

The Museum’s investment activities for 2016 resulted in dividend and interest income of approximately \$837,000, net realized and unrealized loss on investments of approximately \$1,239,000 and total fees of approximately \$138,000.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**3. PLEDGES AND GRANTS RECEIVABLE**

As of June 30, 2016, the Museum has unconditional pledges and grants receivable which are due as follows:

Within one year	\$ 1,588,951
One to five years	4,840,000
Greater than five years	2,417,430
	<u>8,846,381</u>
Less unamortized discount	<u>(1,261,534)</u>
	<u>\$ 7,584,847</u>

Based on its history of collections and an assessment of existing receivables, management of the Museum believes that no allowance for doubtful pledges, grants, and other receivables is necessary at June 30, 2016. Pledges receivable from related parties totaled approximately \$7,080,000 at June 30, 2016.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2016:

Buildings and leasehold improvements	\$ 37,134,847
Furniture and equipment	5,154,400
	<u>42,289,247</u>
Less accumulated depreciation	<u>(17,467,839)</u>
	24,821,408
Land	8,072,638
Construction in Progress	654,868
	<u>654,868</u>
Property and equipment - net	<u>\$ 33,548,914</u>

Depreciation expense was approximately \$1,144,000 for 2016.

In July 2004, an unrelated party transferred title for land and a building for a third location to the Museum, the fair value of which was estimated to be \$6,771,000. In connection with the transfer, the Museum granted the City of San Diego an option to acquire the land and building on or after July 31, 2091, or prior to that date if the Museum commits a default under the related transfer agreement.

Default includes failure to perform any substantive covenant, condition, or obligation of the Museum under the transfer agreement, including continuous operation of the property as a contemporary art museum. The Museum was not aware of any defaults as of June 30, 2016.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**5. DEBT**

*Line of Credit* - The Museum has a line of credit agreement with a bank expiring in January 2017 that provides for borrowings up to \$1,000,000 at any one time at a variable interest rate, which was 3.25% per annum at June 30, 2016. The line of credit is uncollateralized. At June 30, 2016, there was no outstanding balance under this agreement. There were \$525,000 draws and repayments on the line during the fiscal year. The line of credit agreement contains both financial and nonfinancial covenants. At June 30, 2016 the Museum was in compliance with all covenants.

*Long-Term Debt* - In December 2004, the Museum borrowed \$13,000,000 through the issuance of tax-exempt variable rate demand certificates of participation (the "Bonds") issued by the County of San Diego. The Bonds bear interest at a weekly interest rate determined by Westhoff, Cone & Holmstedt (the "Remarketing Agent"), which was 0.41% per annum at June 30, 2016. The next scheduled payment is November 1, 2025.

The Bonds mature on November 1, 2034, subject to prior redemption, and are secured by a \$9,750,000 (the "Stated Amount") irrevocable, direct-pay letter of credit (the "LC") issued by Northern Trust Bank (the "Bank") for the Museum, in the favor of the bondholders, which expires on February 3, 2021, unless extended. The Museum is required to have a letter of credit related to the Bonds through the maturity date.

The Museum pays to the Bank a LC fee based on a leverage ratio calculation. For the quarter ended June 30, 2016, the LC fee was equal to 0.75% per annum of the stated amount of the LC. LC fees are paid quarterly in advance, which commenced on February 2, 2011.

Furthermore, according to the terms of the LC the Museum has provided the Bank with a perfected first priority lien and security interest in the gross revenues of the Museum and each account in which the gross revenues are deposited.

The Museum must satisfy certain contractual covenants related to the Bonds that include, among others, meeting an annual liquidity requirement, maintaining its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, limiting capital expenditures and additional debt, and meeting annual financial reporting and audit requirements. The Museum was in compliance with these requirements as of June 30, 2016.

The proceeds of the Bonds were applied to the financing of the acquisition, construction, installation, improvement, renovation, furnishing, and equipping of new Museum galleries and other related facilities associated with the expansion project (collectively, "the Project") in San Diego. The Project included renovating the historic Santa Fe Depot "baggage building" and constructing an adjacent three-story contemporary structure.

In connection with the issuance of the Bonds, the Museum incurred approximately \$460,000 of certain directly related issuance expenses, which have been capitalized as debt issuance costs. These deferred financing costs are being amortized to general and administrative expense over the life of the Bonds. Amortization expense of approximately \$15,000 was recognized in 2016.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Future minimum principal payments related to the bank loan and to the bonds are as follows:

<b>Years Ending June 30,</b>	
2017	\$ -
2018	-
2019	-
2020	-
2021	-
Thereafter	3,750,000
	<u>3,750,000</u>
Less current portion	-
	<u>\$ 3,750,000</u>

**6. FAIR VALUE MEASUREMENTS**

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the input information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs for the asset or liability.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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The following disclosures provide the fair value of financial instruments at June 30, 2016:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Charitable Remainder Trusts	\$ -	\$ -	\$ 822,443	\$ 822,443
Common Stock Funds:				
Domestic:				
Large Cap	9,884,978	-	-	9,884,978
Mid Cap	891,347	-	-	891,347
Small Cap	1,752,186	-	-	1,752,186
Commodities - natural resources	1,179,630	-	-	1,179,630
International:				
International Developed	8,157,123	-	-	8,157,123
Emerging Markets	2,634,349	-	-	2,634,349
Fixed Income Funds:				
Government Agencies	469,967	4,256,942	-	4,726,909
Corporate Bond Funds	950,499	-	-	950,499
Exchange Traded Funds	620,525	-	-	620,525
Real Estate Investment Trust	1,660,737	-	-	1,660,737
	<u>\$ 28,201,341</u>	<u>\$ 4,256,942</u>	<u>\$ 822,443</u>	<u>\$ 33,280,726</u>

See Note 1 for a discussion of the fair value measurements of these assets.

For assets and liabilities measured at fair value on a recurring basis using Level 3 inputs during the year, authoritative guidance requires a reconciliation of the beginning and ending balances for each major category as follows:

	<u>Charitable Remainder Trusts</u>
Balance as of July 1, 2015	\$ 910,091
Unrealized loss	(87,648)
Balance as of June 30, 2016	<u>\$ 822,443</u>

**7. ENDOWMENT NET ASSETS**

In August 2008, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance for endowments which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The State of California approved a version of UPMIFA in September 2008, effective January 1, 2009.

Authoritative guidance requires the Museum to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. Specifically, the portion classified as permanently restricted shall be (a) the amount of the fund that must be retained permanently per explicit donor stipulations or (b) in the absence of such stipulations, the amount which the Museum’s governing board determines must be retained (preserved) permanently consistent with UPMIFA.



**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Authoritative guidance requires affirmation that the amount that is classified as permanently restricted net assets is not reduced by losses on investments of the fund or by the Museum's appropriations from the fund unless required by the donor. Furthermore, the portion of the fund that is not classified as permanently restricted net assets must be classified as temporarily restricted net assets until appropriated for expenditure by the Museum. Such appropriation is deemed to occur upon the Museum's governing board's approval of expenditures in the current period. Once the appropriation for expenditure has occurred, the appropriated amount is reclassified to unrestricted net assets.

UPMIFA states that, absent explicit donor instructions to the contrary, assets in an endowment fund are donor-restricted assets until appropriated by the Museum. The Museum interprets this to mean that all earnings on a donor-restricted endowment gift are restricted assets. As such, in accordance with the authoritative guidance, such earnings are classified as temporarily restricted net assets (time restricted) until appropriated by the Museum.

UPMIFA became effective in California for endowment funds existing on or established after January 1, 2009. The law defines an endowment fund to mean an institutional fund (excluding assets that an institution designates as an endowment fund for its own use) that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The law establishes various factors for the Museum to consider in the management and investment of endowment funds, as well as various factors for the Museum to consider in its determination as to whether to appropriate or accumulate the endowment funds.

Upon adoption of UPMIFA the Museum interpreted the corpus of invested permanently restricted funds to be approximately \$39,058,000. The Museum considers the value of an endowment gift to be considered for appropriation under UPMIFA to be equal to the sum of the original gift (and any subsequent donations) plus accumulated investment earnings, less accumulated investment losses and appropriations for expenditure by the Museum at any point in time.

Previous California law restricted spending on donor-restricted endowment funds where the value of the fund fell below the "historic dollar value." The historic dollar value represented the aggregate value of all contributions to an endowment fund at the time they were made. Absent explicit donor instructions to the contrary, the Museum interprets UPMIFA to have eliminated the historic dollar value limitation when considering endowment spending, instead providing guidelines for such spending (referred to as "appropriation" in 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 fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policy of the Museum

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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The Board adopted a spending policy for permanently restricted endowment funds based on a rolling average of historical market values. In fiscal year 2009 the Board approved the annual use of approximately 5% of the endowment funds' calculated fair market value for the Museum's operations. The Board appropriated approximately \$2,062,000 from permanently restricted endowment funds in 2016 for operations. An additional board approved draw of \$800,000 was drawn to pay down bond principal and interest in July 2015.

The Museum's endowment investment policy and strategy is to emphasize total return, that is, the aggregate return from capital appreciation and dividend and interest income. Within this framework specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with the authoritative guidance, deficiencies of this nature are reported in unrestricted net assets in the year in which they occur. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$8,491,000 as of June 30, 2016. Gains and income in subsequent years will be netted against this deficiency until the fair value is once again above the initial level. During 2016, approximately \$808,000 in gains and income on the endowments were netted against the loss classified in unrestricted net assets as of June 30, 2016.

The following is a composition of the Museum's endowment (including board designated) by net asset class in total and by type of endowment fund as of June 30, 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board-designated Funds	\$ 2,218,052	\$ -	\$ -	\$ 2,218,052
Donor-restricted Funds	(10,709,073)	194,952	39,673,851	29,159,730
	<u>\$ (8,491,021)</u>	<u>\$ 194,952</u>	<u>\$ 39,673,851</u>	<u>\$ 31,377,782</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment assets, June 30, 2015	\$ (5,259,471)	\$ 313,768	\$ 39,528,001	\$ 34,582,298
Interest and dividends, net	599,866	45,608	-	645,474
Net appreciation (realized gain)	329,238	23,380	-	352,618
Net depreciation (unrealized loss)	(1,411,859)	(105,477)	-	(1,517,336)
Funds in	-	-	145,850	145,850
Funds out	-	(35,615)	-	(35,615)
Appropriations	(1,973,820)	(21,687)	-	(1,995,507)
Bond pay down	(774,975)	(25,025)	-	(800,000)
Endowment assets, June 30, 2016	<u>\$ (8,491,021)</u>	<u>\$ 194,952</u>	<u>\$ 39,673,851</u>	<u>\$ 31,377,782</u>

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Note that the difference between the permanently restricted net assets presented in the statement of activities and the amount included in the table above relates to outstanding pledge receivables and settlement of charitable remainder trusts not invested as an endowment.

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

General operations and programs	\$ 4,227,757
Building campaign	6,974,674
Accessions and exhibitions	<u>1,925,697</u>
Total	<u><u>\$ 13,128,128</u></u>

**9. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are comprised of investments in perpetuity, the income from which is expendable for support of:

General operations and programs	\$ 35,798,749
Building campaign	2,290,566
Accessions and exhibitions	<u>2,578,799</u>
Total	<u><u>\$ 40,668,114</u></u>

**10. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restriction by board appropriation satisfying the restricted purposes specified by donors as follows:

General operations and programs	\$ 242,762
Accessions and exhibitions	232,629
Building campaign	488,328
Write down of temporarily restricted pledge	<u>514,670</u>
Total	<u><u>\$ 1,478,389</u></u>

**11. OPERATING LEASES**

In July 1992, the Museum entered into a ground lease agreement for property the Museum occupies in downtown San Diego. The term of the lease is 99 years and the annual lease payment is \$1.00. The Museum has agreed to comply with certain use and operating restrictions as defined in the lease agreement. The estimated fair value of the lease for 2016 is approximately \$244,000 per year based on rent for similar property in the area and is reflected as unrestricted contributions support and expense in the accompanying statement of activities.

The Museum leases equipment under non-cancelable operating leases. Certain of these leases include renewal and purchase options. Rent expense during 2016 was approximately \$104,000.

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

<b>Year Ending June 30,</b>	
2017	\$ 8,777
2018	7,300
2019	2,858
2020	-
2021	-
Thereafter	-
Total	<u>\$ 18,935</u>

On February 1, 2006 (“Effective Date”), the Museum entered into an agreement with the National Rail Passenger Corporation (“Amtrak”) that allows Amtrak to occupy a portion of the David C. Copley Building (“Copley Building”). Although the agreement states that the \$850,000 payment received from Amtrak is a reimbursement for Amtrak’s agreed share of the costs of construction of the Copley Building, the Museum applied the applicable authoritative guidance to account for the payment as a lease. The term of the lease commenced on March 1, 2007 and expires on July 31, 2091. Rental income was approximately \$10,000 for 2016. Deferred rent revenue at June 30, 2016 is approximately \$751,000 and is included in deferred revenue on the statement of financial position.

**12. CAPITAL LEASES**

The Museum has entered into non-cancelable capital lease agreements for equipment and vehicles. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation and amortization expense for 2016 and 2015.

Following is a summary of property held under capital leases:

Vehicles	\$ 92,569
Equipment	<u>20,300</u>
Less accumulated depreciation	<u>(38,950)</u>
	<u>\$ 73,919</u>

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Future minimum principal and interest payments due under these leases are as follows:

<b>Year Ending June 30,</b>		
	2017	\$ 29,904
	2018	19,608
	2019	14,464
	2020	13,259
	2021	-
	Thereafter	-
	Total minimum lease payments	<u>\$ 77,235</u>
	Amount representing interest	<u>(5,213)</u>
	Present value of minimum lease payments	<u>\$ 72,022</u>
	Total obligation	\$ 72,022
	Less current portion	<u>(27,264)</u>
	Long-term portion	<u>\$ 44,758</u>

**13. EMPLOYEE RETIREMENT PLANS**

The Museum has an employee retirement plan that is a defined contribution plan under which the Museum matches a percentage of the participants' contributions after one year of employment. The contributions are made in accordance with Section 403(b) of the Internal Revenue Code. Total employer contributions were approximately \$105,000 for 2016.

In 2008 the Museum set up qualified 457(b) plans and a 457(f) plan for two top executives. Employer contributions to these plans totaled approximately \$71,000 in 2016. The plans require the Museum to deposit employer contributions in a separate bank account each year. Assets contributed to the plans remain the sole property of the Museum until a covered employee is eligible to receive distributions.

**14. LITIGATION**

In the normal course of business, the Museum is occasionally named in various claims and litigations. It is the opinion of management that the outcome of any pending items will not materially affect the operations or the financial position of the Museum. Management is not aware of any lawsuits where the Museum is currently named.

**15. SUBSEQUENT EVENTS**

The Museum has evaluated subsequent events through November 10, 2016, which is the date the financial statements were available to be issued.

**SUPPLEMENTAL SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2016**

Museum of Contemporary Art San Diego  
Statement of Functional Expenses  
For the Year Ended June 30, 2016

	Program Services								Support Services							Total
	Exhibitions	Publications	Curatorial	Permanent Collections, Circulation and Accessions	Events and Visitor Services	Education Performances Library	Museum Stores	Membership Support	Museum Beverage Service	PR and Marketing	Development	Special Events	General and Administrative	Expansion Campaign	Building	
Salaries and employee benefits	\$ 357,969	\$ 6,276	\$ 482,584	\$ 258,939	\$ 380,946	\$ 211,012	\$ 94,428	\$ 399,448	\$ 19,436	\$ 195,880	\$ 354,619	\$ 7,382	\$ 1,096,916	\$ 48,738	\$ 191,140	\$ 4,105,713
Accessions of art, net of deaccessions	-	-	-	340,363	-	-	-	-	-	-	-	-	-	-	-	340,363
Advertising and marketing	-	77	-	-	3,388	4,157	-	827	-	46,137	-	1,000	-	1,500	-	57,086
Bank service fees/Interest expense	-	12	3	2,624	8,720	702	6,948	16,166	4,893	-	-	36,691	54,173	-	1,096	132,028
Amortization of Bond issuance fees	-	-	-	-	-	-	-	-	-	-	-	-	15,380	-	-	15,380
Contract/Consulting services	105,439	5,770	728	35,777	6,241	14,281	1,314	42,478	69,619	21,654	5,320	175,793	61,542	95,224	283,691	924,871
Computer materials/service	-	-	-	50	-	16,500	-	-	-	-	-	-	-	-	492	17,042
Cost of sales	-	65,636	-	-	-	-	175,599	-	32,898	-	-	-	-	-	-	274,133
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,144,055	1,144,055
Food and entertainment	3,972	-	1,749	444	365	13,778	165	38,975	-	489	1,446	81,251	47,519	7,339	272	197,764
Graphic design and printing	31,930	-	-	-	-	5,177	-	34,688	-	734	-	30,174	1,454	247	-	104,404
Honoraria/artist fees	1,353	-	-	300	-	-	-	145	-	-	-	180,955	-	-	-	182,753
Insurance	51,509	-	-	84,257	-	1,531	-	450	1,656	-	-	479	24,623	-	63,802	228,307
Investment fee	1,716	-	-	10,502	-	9,318	-	-	-	-	-	-	116,388	-	-	137,924
In-kind contributions	-	-	-	-	-	31,002	-	14,414	-	43,000	-	1,031,046	-	-	17,070	1,136,532
Legal and accounting	255	-	-	-	285	28	-	-	-	-	-	876	99,322	79,569	113	180,448
Loss on disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,153	3,153
Membership, dues and subscriptions	-	60	645	728	-	-	-	1,820	-	2,584	830	-	19,609	-	110	26,386
Miscellaneous	28,997	17,170	80	2,106	(87)	57,848	765	4,272	-	34	514,961	6,226	7,419	-	216	640,007
Newsletter	-	-	-	-	-	-	-	-	-	26,567	-	-	-	-	-	26,567
New employee search/staff training	807	-	65	190	500	1,411	290	585	-	735	570	-	5,716	70	328	11,267
Participation fees	26,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,100
Photography	8,041	-	-	413	-	5,451	-	1,906	-	700	-	3,459	494	-	-	20,464
Postage	4	269	151	166	18	312	19	9,465	-	137	213	6,501	1,646	-	19	18,920
Rentals	210,603	7,365	-	3,509	-	375	-	13,054	11,684	-	-	41,633	3,622	592	54,969	347,406
Repairs and maintenance	245	-	-	8,580	-	-	-	-	-	-	-	-	370	-	168,042	177,237
Restoration	9,924	-	7,800	8,888	-	203	-	-	-	-	-	2,794	-	-	-	29,609
Shipping and crating	137,308	369	-	118,449	-	194	4,221	64	-	-	100	9,540	77	-	-	270,322
Supplies and equipment	54,771	52	659	18,257	7,384	19,335	1,699	2,887	3,124	1,132	316	4,480	7,205	331	46,150	167,782
Taxes	-	-	-	63	17,610	-	-	-	-	-	-	-	1,491	-	44,994	64,158
Telephone	-	-	-	-	-	1,077	-	-	-	14	-	-	1,428	-	77,469	79,988
Travel and accomodations	23,603	-	12,322	3,630	415	38,519	2,735	4,142	-	2,307	1,207	341	50,069	11,279	2,075	152,644
Utilities	-	-	-	25,552	-	1,600	-	-	-	-	-	-	-	-	425,009	452,161
	1,054,546	103,056	506,786	923,787	425,785	433,811	288,183	585,786	143,310	342,104	879,582	1,620,621	1,616,463	244,889	2,524,265	11,692,974
Allocation of building expenses	1,406,150	-	27,095	637,493	242,070	119,132	29,422	3,518	-	6,458	21,304	-	31,623	-	\$ (2,524,265)	-
	\$ 2,460,696	\$ 103,056	\$ 533,881	\$ 1,561,280	\$ 667,855	\$ 552,943	\$ 317,605	\$ 589,304	\$ 143,310	\$ 348,562	\$ 900,886	\$ 1,620,621	\$ 1,648,086	\$ 244,889	\$	\$ 11,692,974

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES OF CITY FUNDS SPECIAL PROMOTIONAL FUND AWARD FOR THE YEAR ENDED JUNE 30, 2016

COMMISSION FOR ARTS AND CULTURE, CITY OF SAN DIEGO BUDGET AND EXPENSES	Budgeted	Actual	Total Funds
<b>Expense Classification</b>			
All salaried personnel	\$ 3,992,011	\$ 3,854,063	\$ 216,994
Operating Expenses - nonpersonnel			
Program expenses	1,460,422	1,141,188	209,564
Facility expenses/space rental	981,834	992,373	-
Fundraising	460,481	589,086	-
Operating expenses	304,792	342,558	-
Artists and performers	10,400	88,717	10,000
Marketing	135,803	110,957	-
Other (Stores, MBS)	270,255	321,427	-
Total operating expenses	3,623,987	3,586,306	219,564
Total expenses	\$ 7,615,998	\$ 7,440,369	\$ 436,558

NOTE: Budget and actual amounts are only a component of the Museum's operations and are not intended to reflect all of the operations of the Museum.