

Mingei International, Inc.

Financial Report

June 30, 2024



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Independent Auditor's Report

To the Board of Directors of Mingei International, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mingei International, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mingei International, Inc. as of June 30, 2024, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mingei International, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mingei International, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mingei International, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mingei International, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Mingei International, Inc.'s June 30, 2023, financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
December 3, 2024

Mingei International, Inc.

Statement of Financial Position

June 30, 2024

(With Summarized Financial Information for June 30, 2023)

	2024	2023 (Note 15)
Assets		
Cash and cash equivalents	\$ 480,479	\$ 833,738
Grants and other receivables	37,779	83,513
Prepaid expenses and other assets	211,486	203,819
Pledges receivables, net	278,531	175,890
Investments	15,806,655	15,232,243
Right of use asset	355,546	461,927
Property, equipment, and leasehold improvements, net	43,316,515	45,823,148
Collections and exhibits	1	1
Total assets	<u>\$ 60,486,992</u>	<u>\$ 62,814,279</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 705,368	\$ 713,015
Unearned revenues	94,165	3,604,855
Lease liability	391,556	504,511
Notes payable	6,500,000	6,500,000
Total liabilities	<u>7,691,089</u>	<u>11,322,381</u>
Net assets:		
Without donor restrictions	38,254,124	38,127,905
With donor restrictions	14,541,779	13,363,993
Total net assets	<u>52,795,903</u>	<u>51,491,898</u>
Total liabilities and net assets	<u>\$ 60,486,992</u>	<u>\$ 62,814,279</u>

Mingei International, Inc.

Statement of Activities

Year Ended June 30, 2024

(With Summarized Financial Information for the Year Ended June 30, 2023)

	Without Donor Restrictions	With Donor Restrictions	Total	2023 (Note 15)
<u>Operating Activities</u>				
Support and revenues				
Contributions and grants	\$ 1,768,598	\$ 4,326,454	\$ 6,095,052	\$ 4,688,792
Auxiliary activities	1,075,651	-	1,075,651	972,624
Contracts and grants	243,864	-	243,864	216,520
Memberships	303,563	-	303,563	318,001
Admissions	189,965	-	189,965	239,861
Other income	130,441	-	130,441	17,921
Special events and fundraising	284,365	-	284,365	170,985
Net assets released from restrictions for operations	4,767,640	(4,767,640)	-	-
Total revenue and support	<u>8,764,087</u>	<u>(441,186)</u>	<u>8,322,901</u>	<u>6,624,704</u>
Expenses				
Program services				
Exhibitions and collections	3,775,889	-	3,775,889	4,028,805
Education	644,363	-	644,363	561,873
Library	379,317	-	379,317	333,943
Shops and restaurant	1,562,636	-	1,562,636	1,189,858
Total program services	<u>6,362,205</u>	<u>-</u>	<u>6,362,205</u>	<u>6,114,479</u>
Supporting services				
Management and general	1,651,644	-	1,651,644	1,608,743
Fundraising	941,987	-	941,987	914,936
Total supporting services	<u>2,593,631</u>	<u>-</u>	<u>2,593,631</u>	<u>2,523,679</u>
Total expenses	<u>8,955,836</u>	<u>-</u>	<u>8,955,836</u>	<u>8,638,158</u>
Operating revenues and support in deficit of expenses	<u>(191,749)</u>	<u>(441,186)</u>	<u>(632,935)</u>	<u>(2,013,454)</u>
<u>Non-operating activities</u>				
Investment income, net	85,327	412,441	497,768	362,839
Net realized and unrealized gain	232,641	1,206,531	1,439,172	1,067,641
Total non-operating activities	<u>317,968</u>	<u>1,618,972</u>	<u>1,936,940</u>	<u>1,430,480</u>
Change in net assets	126,219	1,177,786	1,304,005	(582,974)
Net assets at beginning of year	<u>38,127,905</u>	<u>13,363,993</u>	<u>51,491,898</u>	<u>52,074,872</u>
Net assets at end of year	<u>\$ 38,254,124</u>	<u>\$ 14,541,779</u>	<u>\$ 52,795,903</u>	<u>\$ 51,491,898</u>

Mingei International, Inc.

Statement of Functional Expenses

Year Ended June 30, 2024

(With Summarized Financial Information for the Year Ended June 30, 2023)

	Program Services					Supporting Services		Total	2023 (Note 15)
	Exhibitions and Collections	Education	Library	Shops and Restaurant	Total Program Services	Management and General	Fundraising		
Expenses									
Salaries	\$ 1,147,470	\$ 367,186	\$ 118,706	\$ 223,159	\$ 1,856,521	\$ 1,136,108	\$ 554,968	\$ 3,547,597	\$ 3,246,516
Depreciation expense	1,370,237	118,821	98,608	603,178	2,190,844	217,147	140,417	2,548,408	2,530,426
Facility expense	457,514	33,030	90,171	231,653	812,368	46,194	34,612	893,174	753,240
Other expenses	444,823	29,495	22,064	111,859	608,241	26,821	115,133	750,195	622,730
Cost of goods sold	-	-	-	326,454	326,454	-	-	326,454	297,755
Professional services	133,672	29,590	5,421	3,465	172,148	76,783	15,394	264,325	207,459
Technology and telephone	97,685	13,986	11,432	13,208	136,311	44,690	38,287	219,288	203,326
Office expenses	30,512	37,247	4,035	13,096	84,890	51,711	24,796	161,397	217,060
Insurance	36,570	15,008	2,743	2,194	56,515	9,983	7,679	74,177	76,034
Printing and signage	15,134	-	-	7,904	23,038	37,963	-	61,001	76,946
In-kind expenses	30,509	-	26,137	-	56,646	-	-	56,646	366,808
Bank fees	11,763	-	-	26,466	38,229	4,244	10,701	53,174	39,858
Total expenses	<u>\$ 3,775,889</u>	<u>\$ 644,363</u>	<u>\$ 379,317</u>	<u>\$ 1,562,636</u>	<u>\$ 6,362,205</u>	<u>\$ 1,651,644</u>	<u>\$ 941,987</u>	<u>\$ 8,955,836</u>	<u>\$ 8,638,158</u>

Mingei International, Inc.

Statement of Cash Flows

Year Ended June 30, 2024

(With Summarized Financial Information for the Year Ended June 30, 2023)

	2024	2023 (Note 15)
Cash flows from operating activities		
Change in net assets	\$ 1,304,005	\$ (582,974)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	2,548,408	2,530,426
Non cash lease expense	(6,574)	13,226
Net realized and unrealized gain on investments	(1,439,172)	(1,067,641)
Change in operating assets and liabilities:		
Pledges receivables	(102,641)	1,204,651
Grant and other receivables	45,734	1,426,024
Prepaid expenses and other assets	(7,667)	(58,409)
Accounts payable and accrued expenses	(7,647)	(283,042)
Unearned revenues	(3,510,690)	(218,844)
Net cash (used in) provided by operating activities	<u>(1,176,244)</u>	<u>2,963,417</u>
Cash flows from investing activities		
Purchase of investments	(4,775,598)	(11,887,762)
Proceeds from sale of investments	6,386,365	18,268,544
Purchase of property and equipment	(41,775)	(402,437)
Net cash provided by investing activities	<u>1,568,992</u>	<u>5,978,345</u>
Cash flows from financing activities		
Payment on notes payable	-	(3,500,000)
Net cash used in financing activities	<u>-</u>	<u>(3,500,000)</u>
Change in cash, cash equivalents and restricted cash	392,748	5,441,762
Cash and cash equivalents at beginning of year	5,890,236	448,474
Cash and cash equivalents at end of year	<u>\$ 6,282,984</u>	<u>\$ 5,890,236</u>
Cash, cash equivalents and restricted cash consist of		
Cash and cash equivalents	480,479	833,738
Cash and cash equivalents included in investments	5,802,505	5,056,498
	<u>\$ 6,282,984</u>	<u>\$ 5,890,236</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 339,327</u>	<u>\$ 417,881</u>

Note 1. Organization and Significant Accounting Policies

Organization and Activities

Mingei International, Inc. (the Museum) is a not-for-profit corporation organized under the laws of the State of California for the purpose of furthering the understanding of art of people (*mingei*) from all eras and cultures of the world. This art shares a direct simplicity and reflects joy in making, by hand, useful objects of timeless beauty that are satisfying to human spirit. The Museum collects, conserves and exhibits these arts of daily life – by unknown craftspeople of ancient times, from traditional cultures of past and present and by historical and contemporary designers. The Museum is located in San Diego’s Balboa Park.

Significant Accounting Policies

Method of Accounting - The financial statements of the Museum have been prepared utilizing the accrual basis of accounting.

Basis of Presentation – The financial statements of the Museum have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Museum to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Museum’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Museum’s ongoing programs. Non-operating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

Revenue Recognition

Contributions – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Museum reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with restriction revenues are reclassified to without restriction revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as donor restricted endowments. The income and net gains earned from such assets is generally restricted to the purpose designated by the donor.

Contributions of service are recognized if the services 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. During the year ended June 30, 2024, no contributions of services were recorded.

Grants – The policy of the Museum is to recognize the revenue to the extent of eligible costs incurred, up to the maximum subcontract or grant amount.

Mingei International, Inc.

Notes to Financial Statements

Contracts – The Museum recognizes revenue as services are provided.

Admissions – Admissions are recorded when tickets are redeemed at the Museum.

Memberships – Membership fees are recognized as revenue ratably over the membership period. Amounts received for subsequent year's fees are recorded as deferred membership revenue in the statement of financial position.

Exhibition Costs – Exhibition costs are usually expensed when incurred or during the life of the exhibit; however, traveling exhibition costs included in prepaid expense are expensed over the term of the exhibition.

Auxiliary Activities – The Museum's auxiliary activities include food and beverage services, education activities, retail merchandise, facility rentals, and other similar support activities.

Cash and Cash Equivalents – The Museum considers all cash accounts that are not subject to withdrawal restrictions or penalties, and certificate of deposits with an original maturity date of less than 90 days to be cash equivalents.

Grants and other receivables – All receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on the estimated collectability. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that no allowance is needed for the year ended June 30, 2024.

Pledges Receivable – Pledges receivable are unconditional promises received and are recorded when the promise to contribute is made. The Museum provides an allowance for estimated uncollectible amounts at the time the pledges are recorded. The provision for uncollectible pledges is based, among other things, on the Museum's past collection experience and the changes in the current economic conditions. Pledges receivable with payment terms in excess of one year have been discounted using an interest rate of 3%. Amortization of the discounts related to pledges receivable are recognized over the period of the promise as contribution revenue. Management has determined that no allowance is needed for the year ended June 30, 2024.

Investments – Investments in debt and equity securities with readily determinable fair values are reported at fair values. Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets, unless the use is restricted by the donor. Cash and cash equivalents that are used as part of the investment policy are included with investments.

Physical Facilities – The City of San Diego owns the building in Balboa Park occupied by the Museum. The Museum occupies the building under a 25-year lease agreement with the City of San Diego expiring in 2046, which permits the Museum use of the structure at no charge. Under the terms of the lease, the City is responsible for the maintenance of the exterior of the building.

In accordance with accounting principles generally accepted in the United States of America (US GAAP), the original value of the building is to be reflected in the Museum's financial statements. However, if the building had been reported at its fair market value at the date the agreement with the City originally commenced, it would have been fully depreciated in prior years. Therefore, it is not reflected in the accompanying statement of financial position. The cost of construction to expand and renovate the original building has been capitalized in the statement of financial position as leasehold improvements and is being amortized over the life of the lease.

The agreement with the City also provides for the Museum's free use of the land in Balboa Park on which the structure is situated. No amounts have been reflected in the financial statements for use of the land, as no objective basis is available to measure its value.

Considering the lease with the City as an operating lease under ASC 842, the Museum has no fixed lease payments, and therefore no lease liability or right-of-use asset is recognized on the statement of financial position for this lease. The maintenance and upkeep costs, as well as the depreciation of leasehold improvements, are expensed as incurred and reported in the statement of activities.

Property, Equipment and Leasehold Improvements – Property, equipment and leasehold improvements are carried at cost for items purchased or improvements made, or fair value at the date of the gift for donated items. Items which cost or have a fair value at the date of the gift of \$5,000 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	24 years
Furniture and equipment	5 -7 years

Depreciation expense totaled \$2,548,408 for the year ending June 30, 2024.

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. Acquisition and preservation of objects are the primary responsibilities of the Board of Directors, the executive director, and the curatorial staff. The Museum’s collections are expensed when acquired. In accordance with the practice generally followed by museums, the value of the collections housed by the Museum are excluded from the financial statements and are reflected on the statement of financial position at the nominal value of \$1, as there is no objective basis for establishing value. 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 class. There were no proceeds from deaccessions during the year ended June 30, 2024.

Leases – Under ASC 842, the Museum determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Museum does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Museum are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service. Salary and benefits are allocated based on full time equivalents. Depreciation, interest, office and occupancy, insurance, and miscellaneous other expenses are allocated based on a square footage basis.

Use of Estimates – The preparation of financial statements, in conformity with US GAAP, 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 support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status – The Museum is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is also exempt from state income tax. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Taxes*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Museum has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Mingei International, Inc.

Notes to Financial Statements

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Museum’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Museum has evaluated subsequent events through December 3, 2024, which is the date the financial statements are available for issuance, and concluded that there are no events or transactions that needs to be disclosed.

Note 2. Liquidity and Availability of Resources

The Museum’s financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

<u>Financial Assets</u>	
Cash and cash equivalents	\$ 480,479
Grants and other receivables	37,779
Pledges receivable, current	278,531
Investments	<u>15,806,655</u>
Total financial assets available within one year	<u>16,603,444</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	763,801
Restricted by donors in perpetuity	<u>13,777,978</u>
Total amounts unavailable for general expenditures within one year	<u>14,541,779</u>
Amounts unavailable to management without Board of directors approval:	
Board designated quasi-endowment	<u>2,028,677</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 32,988</u>

The Museum maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Investments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Museum uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

The hierarchy for fair value measurement are described as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - observable market-based inputs or unobservable inputs that are corroborated by market data. May include quoted prices in a market that is not active.

Level 3 - unobservable inputs that cannot be corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

NAV - privately held investments and securities held in partnerships are valued at Net Asset Value (NAV) as a practical expedient. These investments have not been classified in the three-level fair value hierarchy and NAV investments are presented in the accompanying financial statements at fair value, as determined by the Museum. The Museum believes that the carrying amount of its NAV investments is a reasonable estimate of fair value.

The following are descriptions of the valuation inputs and techniques that the Museum utilizes to determine fair value for each major category of assets and liabilities.

Due to the short-term nature of cash equivalents, other assets, accounts payable and accrued expenses, carrying value approximates fair value. The following table represents investments by type, that are measured at fair value on a recurring basis at June 30, 2024:

	Fair Value Measurements at June 30, 2024, Using:				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents	\$ 5,802,505	\$ -	\$ -	\$ -	\$ 5,802,505
Equity funds	8,934,517	-	-	-	8,934,517
Private equities	-	-	-	566,468	566,468
Total investments	14,737,022	-	-	566,468	15,303,490
Funds held at San Diego Foundation	-	253,848	-	-	253,848
Funds held at Rancho Santa Fe Foundation	-	249,317	-	-	249,317
	<u>\$ 14,737,022</u>	<u>\$ 503,165</u>	<u>\$ -</u>	<u>\$ 566,468</u>	<u>\$ 15,806,655</u>

For the valuation of equity and mutual funds as of June 30, 2024, the Museum used quoted prices in principal active markets for identical assets as of the valuation date (Level 1).

For the valuation of funds held at the San Diego Foundation and Rancho Santa Fe Foundation as of June 30, 2024, the Museum used quoted prices in principal active markets for certain underlying fund positions and significant other observable inputs (Level 2).

For the valuation of private equities as of June 30, 2024, the Museum used Net Asset Value to determine the fair value, which does not have readily determinable fair value. Such a value generally represents the proportionate share of the investment as reported by the general partners.

The management of the Museum is responsible for making fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Museum has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with US GAAP.

The Museum's investment activities for the year ended June 30, 2024, resulted in interest and dividend income of \$570,550, net realized and unrealized gain of \$1,439,172 and management fees of \$72,782.

Note 4. Pledges Receivable

At June 30, 2024, pledges receivable totaled \$278,531 which are all due within one year.

Note 5. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2024:

Leasehold improvements	\$ 47,020,315
Furniture, fixtures, and equipment	<u>4,017,420</u>
	51,037,735
Less accumulated depreciation	<u>(7,721,220)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 43,316,515</u>

Note 6. Notes Payable

On January 31, 2024, the Museum was approved by Chase to refinance and restructure their loan. The total amount refinanced is \$6,500,000 over 36 months, variable interest rate based on Structured Overnight Financing Rate (SOFR), current indicative rate as of 01/31/2024 is 8.25%. Interest is payable monthly and principal payments are made quarterly. Outstanding balance on the loan at June 30, 2024, is \$6,500,000. Interest expense on the outstanding balance for the year ended June 30, 2024, is \$492,425.

Note 7. Leases

The Museum evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Museum's right to use underlying assets for the lease term, and the lease liabilities represent the Museum's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases on copiers and storage space, were calculated based on the present value of future lease payments over the lease terms. The Museum has made an accounting policy election to use US treasury rate to discount future lease payments. The US treasury rate applied to calculate lease liabilities was 1.37%.

For the year ended June 30, 2024, total operating lease cost was \$122,564 and is included with facility expense on the statement of functional expenses.

Right-of-use assets at June 30, 2024 was \$355,546.

Future minimum base lease payments required under the lease agreement for the years ending June 30 is as follows:

<u>Years Ending June 30,</u>	
2025	\$ 132,346
2026	135,774
2027	129,790
2028	<u>16,638</u>
Total lease payments	414,548
Less interest	<u>(22,992)</u>
Present value of lease liability	<u>\$ 391,556</u>

Lease Agreement with the City of San Diego: Under a 25-year lease expiring in 2046, the Museum uses the building at no charge, while the City maintains the building's exterior. US GAAP requires the original building value to be reflected in the Museum's financial statements. However, had the building been reported at its fair market value when the lease commenced, it would be fully depreciated by now. Therefore, it does not appear in the current statement of financial position. The cost of expansion and renovation, amounting to \$47,020,315 has been capitalized and is amortized over the lease term.

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As the lease with the City is classified as an operating lease under ASC 842 and involves no fixed payments, no lease liability or ROU asset is recognized. Maintenance and depreciation of leasehold improvements are expensed as incurred.

Land Use and Maintenance: The lease also grants the Museum free use of land in Balboa Park and maintenance of the building's exterior by the City of San Diego. No value for land use is recorded in the financial statements, as there is no objective measure of its worth.

Note 8. Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2024 consist of the following:

Board designated quasi-endowment	\$ 2,028,677
Without donor restrictions	<u>36,225,447</u>
	<u>\$ 38,254,124</u>

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows received by the Museum, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions at June 30, 2024 that are available for the following purposes.

Subject to expenditure for specified purpose	
Programs, exhibitions and acquisitions	\$ <u>763,801</u>
Donor-restricted endowments subject to spending	
policy and appropriation, to support building,	
operations and exhibition enhancement	
(including net accumulated earnings of \$5,629,684)	<u>13,777,978</u>
Total net assets with donor restrictions	<u>\$ 14,541,779</u>

Note 10. Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

Net assets released from restriction consist of the following at June 30, 2024:

Building	\$ 3,562,850
Programs, exhibitions and acquisitions	632,074
Endowment funds	<u>572,716</u>
	<u>\$ 4,767,640</u>

Note 11. Endowment

Endowment Funds

The net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Museum's endowment funds consist of six individual funds established for specific purposes. The endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

Interpretation of Relevant Law

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) in 2008. The Board of Directors of the Museum has interpreted the UPMIFA as requiring the long-term preservation of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies with donor restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unless otherwise stipulated by the donor, the Museum classifies its donor-restricted fund net assets with donor restrictions held in perpetuity, using the original value of the gift when it was donated to the permanent endowment. Accumulated earnings to the permanent endowment are classified as net assets with donor restricted that are program or time restricted in accordance with UPMIFA.

Endowment Investment and Spending Policies

In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the endowment fund.
- The purposes of the Museum and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Museum.
- The investment policy of the Museum.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. The Museum expects its endowment funds, over time, to provide an average rate of return.

The investment objectives for the Endowment’s assets are to earn long-term returns that match or exceed annual income requirements of the Mingei International, Inc., to provide for asset growth at a rate in excess of the rate of inflation, to diversify the Endowment’s assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses, and to achieve investment results over the long-term that compare favorably with those of other endowments and of appropriate market indexes. The committee uses a return objective which is measured over a full market cycle (5 years), and is expected to outperform a custom index which reflects the target asset allocation of the portfolio. The 5-year custom index was 7.5% as of June 30, 2024.

The Museum has a policy of appropriating for distribution each year no more than 4% of its endowment fund’s average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow annually. This is consistent with the Museum’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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Funds with deficiencies - From time to time, the fair value of the assets associated with donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as funds of perpetual duration. These deficiencies generally result from unfavorable market fluctuations that may occur. At June 30, 2024, the Museum had no endowment funds with fair values below the original gift amount.

Donor Restricted Endowment net asset composition as of June 30, 2024, is as follows:

	Donor restrictions to be maintained in perpetuity	Unappropriated income on endowment funds available to support	Total
Gwendolyn E. Peacher Fund for exhibition enhancement	\$ 4,385,927	\$ 2,870,930	\$ 7,256,857
Building	1,825,741	1,223,257	3,048,998
Operating	1,011,862	602,282	1,614,144
MWL Director's Chair	796,809	640,162	1,436,971
Brinley Thomas	120,000	40,306	160,306
San Diego Foundation	7,955	252,747	260,702
	<u>\$ 8,148,294</u>	<u>\$ 5,629,684</u>	<u>\$ 13,777,978</u>

Changes in Board designated quasi-endowment and donor-restricted endowment funds during the year ended June 30, 2024, are summarized in the following table:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,500,521	\$ 12,731,722	\$ 15,232,243
Investment return:			
Investment income	85,327	412,441	497,768
Net appreciation (1)	<u>232,641</u>	<u>1,206,531</u>	<u>1,439,172</u>
Total investment return	317,968	1,618,972	1,936,940
Appropriation of assets for expenditure	(112,482)	(572,716)	(685,198)
Board designated funds transfer	(708,539)	-	(708,539)
Contributions	<u>31,209</u>	-	<u>31,209</u>
Endowment net assets, end of year	<u>\$ 2,028,677</u>	<u>\$ 13,777,978</u>	<u>\$ 15,806,655</u>

(1) Includes realized and unrealized gains and losses.

Note 12. Retirement Plan

The Museum offers a defined contribution employee retirement plan, providing a safe harbor match of 100% of participants' contributions, up to 5% of their salary, after six months of employment. The contributions are made in accordance with Section 401(k) of the Internal Revenue Code. Total employer contribution was \$114,777 at June 30, 2024.

Note 13. Contingencies

Grants and Contracts – The Museum has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not have a material impact on the Museum's financial statements.

Note 14. Risks and Uncertainties

Concentration of credit risk – The Museum maintains its cash in bank accounts, which at times may exceed federally insured limits. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

In addition, the Museum invests in various investment securities, including equities and fixed income funds. Marketable securities 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 amounts reported on the financial statements.

Note 15. June 30, 2023, Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2023, from which the summarized information was derived. Certain reclassifications have been made to the summarized 2023 financial information to conform to the classifications adopted for the 2024 financial statements. These reclassifications had no effect on the change in net assets.