

Mingei International Museum

Financial Report

June 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Mingei International Museum:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mingei International Museum, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 Museum, Inc. as of June 30, 2023, 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 Museum 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 Museum 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 Museum 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 Museum 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 Museum Inc.'s June 30, 2022, financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
February 8, 2024

Mingei International Museum, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2023

(With Summarized Financial Information for June 30, 2022)

	2023	2022 (Note 16)
Assets		
Cash and cash equivalents	\$ 833,738	\$ 395,657
Grants and other receivables	83,513	1,509,537
Prepaid expenses and other assets	203,819	145,410
Pledges receivables, net	175,890	1,380,541
Investments	15,232,243	15,541,703
Right of use asset	461,927	-
Property, equipment, and leasehold improvements, net	45,823,148	47,951,137
Collections and exhibits	1	1
Total assets	<u>\$ 62,814,279</u>	<u>\$ 66,923,986</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 713,015	\$ 996,057
Unearned grant revenue	3,604,855	3,823,699
Lease liability	504,511	-
Notes payable	6,500,000	10,000,000
Total liabilities	<u>11,322,381</u>	<u>14,819,756</u>
Commitments (Note 8)		
Net assets:		
Without donor restrictions	38,127,905	39,668,819
With donor restrictions	13,363,993	12,435,411
Total net assets	<u>51,491,898</u>	<u>52,104,230</u>
Total liabilities and net assets	<u>\$ 62,814,279</u>	<u>\$ 66,923,986</u>

Mingei International Museum, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022 (Note 16)
Operating Activities				
Support and revenues				
Contributions and grants	\$ 1,509,130	\$ 3,179,662	\$ 4,688,792	\$ 5,286,396
Auxiliary activities	972,624	-	972,624	651,663
Contracts and grants	216,520	-	216,520	477,900
Memberships	318,001	-	318,001	284,303
Admissions	239,861	-	239,861	191,035
Other income	17,921	-	17,921	178,900
Special events and fundraising	170,985	-	170,985	60,843
Net assets released from restrictions for operations	3,416,142	(3,416,142)	-	-
Total revenue and support	<u>6,861,184</u>	<u>(236,480)</u>	<u>6,624,704</u>	<u>7,131,040</u>
Expenses				
Program services				
Exhibitions and collections	4,028,805	-	4,028,805	3,503,836
Education	561,873	-	561,873	461,262
Library	333,943	-	333,943	331,940
Shops and restaurant	1,189,858	-	1,189,858	1,162,592
Total program services	<u>6,114,479</u>	<u>-</u>	<u>6,114,479</u>	<u>5,459,630</u>
Supporting services				
Management and general	1,608,743	-	1,608,743	2,111,836
Fundraising	914,936	-	914,936	963,952
Total supporting services	<u>2,523,679</u>	<u>-</u>	<u>2,523,679</u>	<u>3,075,788</u>
Total expenses	<u>8,638,158</u>	<u>-</u>	<u>8,638,158</u>	<u>8,535,418</u>
Change in net assets from operating activities	<u>(1,776,974)</u>	<u>(236,480)</u>	<u>(2,013,454)</u>	<u>(1,404,378)</u>
Non-operating activities				
Investment income, net	55,061	307,778	362,839	314,069
Net realized and unrealized gain (loss)	210,357	857,284	1,067,641	(2,353,729)
Total non-operating activities	<u>265,418</u>	<u>1,165,062</u>	<u>1,430,480</u>	<u>(2,039,660)</u>
Change in net assets	<u>(1,511,556)</u>	<u>928,582</u>	<u>(582,974)</u>	<u>(3,444,038)</u>
Net assets at beginning of year, as previously reported	39,668,819	12,435,411	52,104,230	55,548,268
Impact of change in accounting policy (Note 2)	<u>(29,358)</u>	<u>-</u>	<u>(29,358)</u>	<u>-</u>
Net assets at beginning of year, as restated	<u>39,639,461</u>	<u>12,435,411</u>	<u>52,074,872</u>	<u>55,548,268</u>
Net assets at end of year	<u>\$ 38,127,905</u>	<u>\$ 13,363,993</u>	<u>\$ 51,491,898</u>	<u>\$ 52,104,230</u>

Mingei International Museum, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Program Services				Total Program Services	Supporting Services		2023 Total	2022 (Note 16)
	Exhibitions and Collections	Education	Library	Shops and Restaurant		Management and General	Fundraising		
Expenses									
Salaries	\$ 1,264,667	\$ 294,816	\$ 136,326	\$ 16,808	\$ 1,712,617	\$ 1,003,446	\$ 530,453	\$ 3,246,516	\$ 3,413,122
Depreciation expense	1,373,725	122,072	100,194	597,256	2,193,247	190,672	147,342	2,531,261	2,381,256
Facility expense	468,047	25,630	30,045	152,329	676,051	51,230	25,959	753,240	606,316
Other expenses	257,662	23,917	16,746	78,569	376,894	136,610	108,391	621,895	585,978
In-kind expenses	338,025	-	28,783	-	366,808	-	-	366,808	112,383
Cost of goods sold	-	-	-	297,755	297,755	-	-	297,755	230,079
Professional services	100,077	23,809	3,028	1,340	128,254	65,080	14,125	207,459	369,654
Technology and telephone	90,000	13,170	10,864	10,341	124,375	37,879	41,072	203,326	239,505
Printing and signage	19,368	781	-	-	20,149	55,308	1,489	76,946	135,482
Insurance	38,120	13,933	2,910	2,328	57,291	10,594	8,149	76,034	79,408
Office expenses	6,126	39,464	3,433	9,270	58,293	2,553	10,472	71,318	81,174
Advertising and promotion	12,500	-	-	-	12,500	32,988	5,989	51,477	108,971
Travel and business expense	31,285	3,859	-	623	35,767	5,367	1,694	42,828	31,903
Bank fees	8,128	-	-	22,147	30,275	950	8,633	39,858	37,080
Postage and freight	19,150	422	505	732	20,809	3,019	9,112	32,940	45,050
Membership and dues	1,925	-	1,109	360	3,394	13,047	2,056	18,497	30,350
Bad debt expense	-	-	-	-	-	-	-	-	47,707
Total expenses	<u>\$ 4,028,805</u>	<u>\$ 561,873</u>	<u>\$ 333,943</u>	<u>\$ 1,189,858</u>	<u>\$ 6,114,479</u>	<u>\$ 1,608,743</u>	<u>\$ 914,936</u>	<u>\$ 8,638,158</u>	<u>\$ 8,535,418</u>

Mingei International Museum, Inc.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	2023	2022 (Note 16)
Cash flows from operating activities		
Change in net assets	\$ (582,974)	\$ (3,444,038)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	2,530,426	2,381,256
Right of use asset	91,324	-
Change in provision for uncollectible pledges	-	46,192
Net realized and unrealized (gain) loss on investments	(1,067,641)	2,353,729
Contributions restricted for endowment	-	5,643
Change in operating assets and liabilities:		
Pledges receivables	1,204,651	3,024,539
Grant and other receivables	1,426,024	(986,515)
Prepaid expenses and other assets	(58,409)	29,054
Accounts payable and accrued expenses	(283,042)	(2,471,168)
Unearned grant revenue	(218,844)	(2,615,063)
Lease liability	(78,098)	-
Net cash provided by (used in) operating activities	<u>2,963,417</u>	<u>(1,676,371)</u>
Cash flows from investing activities		
Net proceeds from sale (purchase) of investments	6,380,782	3,793,485
Purchase of property and equipment	<u>(402,437)</u>	<u>(6,876,067)</u>
Net cash provided by (used) in investing activities	<u>5,978,345</u>	<u>(3,082,582)</u>
Cash flows from financing activities		
Contributions restricted for endowment	-	(5,643)
Proceeds from notes payable	-	4,442,698
Payment on notes payable	<u>(3,500,000)</u>	<u>(3,000,000)</u>
Net cash (used in) provided by financing activities	<u>(3,500,000)</u>	<u>1,437,055</u>
Change in cash, cash equivalents and restricted cash	5,441,762	(3,321,898)
Beginning of year	448,474	3,770,372
End of year	<u>\$ 5,890,236</u>	<u>\$ 448,474</u>
Cash, cash equivalents and restricted cash consist of		
Cash and cash equivalents	833,738	395,657
Cash and cash equivalents included in investments	<u>5,056,498</u>	<u>52,817</u>
	<u>\$ 5,890,236</u>	<u>\$ 448,474</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 417,881</u>	<u>\$ 242,126</u>

Note 1. Organization and Significant Accounting Policies

Organization and Activities

Mingei International Museum, 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations – The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Museum's ongoing programs. Nonoperating 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, 2023, no contributions of services were recorded.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

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.

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, 2023.

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, 2023.

Inventories - Collector's Gallery inventories, which consist principally of books, periodicals, and other art objects related to the Museum's tax-exempt purpose, are stated at lower of cost (first-in, first-out) or net realizable value.

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.

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.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

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 balance sheet 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 \$2,530,426 for the year ended June 30, 2023.

Collections – The permanent collection of the Museum consist 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 Trustees, 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 statements 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, 2023.

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 balance sheet. 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.

Recently Adopted Accounting Standards – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that requires a lessee to recognize on the statement of financial position, a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, regardless of classification of a lease as an operating or finance lease. The Museum adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach for operating leases with a term greater than 12 months. The Museum also elected the package of practical expedients permitted under the new standard that allowed the Museum to carry forward historical lease classification for existing leases on the adoption date, and allowed the Museum not to assess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method.

The adoption of this standard resulted in recognition of operating right-of-use assets of \$281,191 and lease liabilities of \$318,549 on the statement of financial position as of July 1, 2022. There was no material impact on the statement of activities, statement of functional expenses or statement of cash flows.

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 February 8, 2024, which is the date the financial statements are available for issuance, and concluded that the following must be disclosed:

On January 31, 2024, the Museum was approved by Chase to refinance and restructure their loan. The total amount to be 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.

Other than this event, there were no other events or transactions that need to be disclosed.

Note 2. Change in Accounting Policy

During the year, the Museum changed its method of recognizing operating leases. The Museum adopted the new standard effective July 1, 2022, using the modified retrospective approach.

The Museum recorded a net change in the beginning net assets of \$29,358 as of July 1, 2022, due to the cumulative effect of adopting the new accounting policy.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

Note 3. 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:

Financial Assets

Cash and cash equivalents	\$ 833,738
Pledges receivable, current	127,346
Grants and other receivables	83,513
Investments	<u>15,232,243</u>
Total financial assets available within one year	<u>16,276,840</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	632,271
Restricted by donors in perpetuity	<u>12,731,722</u>
Total amounts unavailable for general expenditures within one year	<u>13,363,993</u>
Amounts unavailable to management without board of directors approval:	
Board designated quasi-endowment	<u>2,500,521</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 412,326</u>

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

Note 4. 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.

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.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

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, 2023:

	Fair Value Measurements at June 30, 2023, Using:			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,056,498	\$ -	\$ -	\$ 5,056,498
Equity funds	<u>9,702,635</u>	-	-	<u>9,702,635</u>
Total investments	14,759,133	-	-	14,759,133
Funds held at San Diego Foundation	-	244,401	-	244,401
Funds held at Rancho Santa Fe Foundation	-	<u>228,709</u>	-	<u>228,709</u>
	<u>\$ 14,759,133</u>	<u>\$ 473,110</u>	<u>\$ -</u>	<u>\$ 15,232,243</u>

For the valuation of equity and mutual funds as of June 30, 2023, 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, 2023, the Museum used quoted prices in principal active markets for certain underlying fund positions and significant other observable inputs (Level 2).

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, 2023, resulted in interest and dividend income of \$366,176, net realized and unrealized gain of \$1,067,641 and management fees of \$3,337.

Note 5. Pledges Receivable

Pledges receivables consist of the following at June 30, 2023:

Pledges receivable due within one year	\$ 127,346
Pledges receivable due between one and five years	<u>50,000</u>
	177,346
Less discount to present value	<u>(1,456)</u>
	<u>\$ 175,890</u>

The discount rate used on long-term pledges received in fiscal year ending June 30, 2023, was 3%, for a total discount of \$1,456.

Note 6. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2023:

Leasehold improvements	\$ 47,037,663
Furniture, fixtures, and equipment	<u>3,965,592</u>
	51,003,255
Less accumulated depreciation	<u>(5,181,107)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 45,822,148</u>

Note 7. Notes Payable

In May 2020, the Museum entered into a \$13,000,000 construction loan agreement to finance facility renovations. The loan has a variable interest rate at June 30, 2023 was 6.87526% (equal to 1.7% per annum above the Libor Rate). On June 1, 2023, the loan matured and the Museum is the process of refinancing the note. Outstanding balance on the loan at June 30, 2023, is \$6,500,000. Interest paid on the outstanding balance for the year ended June 30, 2023, is \$468,671.

Note 8. 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, 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 as of July 1, 2022, to discount future lease payments. The US treasury rate applied to calculate lease liabilities was 1.37%.

For the year ended June 30, 2023, total operating lease cost was \$91,324, and is included with facilities expense on the statement of functional expenses.

Right-of-use assets at June 30, 2023 was \$461,927.

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

<u>Years Ending June 30.</u>	
2024	\$ 129,137
2025	132,342
2026	135,776
2027	129,790
2028	<u>22,184</u>
Total lease payments	549,229
Less interest	<u>(44,718)</u>
Present value of lease liability	<u>\$ 504,511</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 \$47,037,663, has been capitalized and is amortized over the lease term.

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 the land use is recorded in the financial statements, as there is no objective measure of its worth.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2023 consist of the following:

Board designated quasi-endowment	\$ 2,500,521
Without donor restrictions	35,627,384
	<u>\$ 38,127,905</u>

Note 10. 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, 2023 that are available for programs, exhibitions and acquisitions total \$632,271.

Endowments, subject to the Museum's spending policy and appropriations, the income from which is expendable for:

	Donor restrictions to be maintained in perpetuity	Unappropriated income on endowment funds available to support	Total
Gwendolyn E. Preacher Fund for exhibition enhancement	\$ 4,385,927	\$ 2,319,867	\$ 6,705,794
Building	1,825,741	991,726	2,817,467
Operating	1,011,862	477,365	1,489,227
MWL Director's Chair	796,809	533,387	1,330,196
Brinley Thomas	120,000	28,133	148,133
San Diego Foundation - operations	7,955	232,950	240,905
	<u>\$ 8,148,294</u>	<u>\$ 4,583,428</u>	<u>\$ 12,731,722</u>

Total net assets with donor restrictions at June 30, 2023 is \$13,363,993.

Note 11. 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, 2023:

Building	\$ 1,356,910
Programs, exhibitions and acquisitions	1,488,518
Endowment funds	570,714
	<u>\$ 3,416,142</u>

Note 12. 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 Museum, 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, 2023.

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.

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, 2023, the Museum had no endowment funds with fair values below the original gift amount.

Mingei International Museum, Inc.

NOTES TO FINANCIAL STATEMENTS

Board Designated Quasi-Endowment and Donor Restricted Endowment net asset composition as of June 30, 2023, is as follows:

Board designated quasi-endowments	
Board designated quasi-endowments	\$ 2,500,521
Donor Restricted Endowments	
Donor restricted endowments to be maintained in perpetuity	8,148,294
Accumulated gains on donor-restricted endowment funds	4,583,428
	<u>12,731,722</u>
	<u>\$15,232,243</u>

Changes in Board designated quasi-endowment and donor-restricted endowment funds during the year ended June 30, 2023, are summarized in the following table:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,765,079	\$ 12,137,374	\$ 14,902,453
Investment return:			
Investment income	70,116	307,778	377,894
Net appreciation (1)	<u>195,300</u>	<u>857,284</u>	<u>1,052,584</u>
Total investment return	265,416	1,165,062	1,430,478
Appropriation of assets for expenditure	(698,296)	(570,714)	(1,269,010)
Contributions	<u>168,322</u>	<u>-</u>	<u>168,322</u>
Endowment net assets, end of year	<u>\$ 2,500,521</u>	<u>\$ 12,731,722</u>	<u>\$ 15,232,243</u>

(1) Includes realized and unrealized gains and losses, and other fees or expenses

Note 13. Retirement Plan

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 month of employment and provides a safe harbor contribution of no less than 3% after one month of employment. The contributions are made in accordance with Section 401(k) of the Internal Revenue Code. Total employer contribution was \$116,939 at June 30, 2023.

Note 14. 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 15. 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 16. June 30, 2022 Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. The prior year financial statements were audited by other auditors. 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, 2022, from which the summarized information was derived. Certain reclassifications have been made to the summarized 2022 financial information to conform to the classifications adopted for the 2023 financial statements. These reclassifications had no effect on the change in net assets.