

Audited Financial Statements



JAPANESE AMERICAN NATIONAL MUSEUM

June 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees

Japanese American National Museum

Los Angeles, California

We have audited the accompanying financial statements of Japanese American National Museum (National Museum), a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

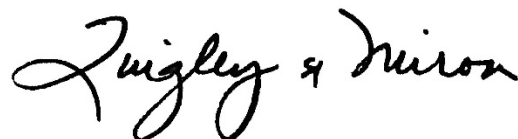
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japanese American National Museum as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Los Angeles, California
October 25, 2019

Japanese American National Museum
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 423,116	\$ 511,369
Restricted cash: gift annuities	65,513	49,451
Inventories, net	265,476	340,089
Pledges and grants receivable, net—Note 3	2,818,883	1,782,991
Investments—Note 4	11,812,003	11,986,821
Land held for investment	36,000	36,000
Beneficial interest in split-interest arrangements—Note 5	2,109,758	2,225,273
Building and land lease—Note 7	7,804,112	7,878,922
Historic Building—Note 7	4,619,353	4,867,357
Other assets	160,589	143,880
Property and equipment, net—Note 8	19,230,610	20,006,247
Capitalized bond issuance costs, net	56,779	85,168
Artifact collection—Note 1		
Total Assets	<u>\$ 49,402,192</u>	<u>\$ 49,913,568</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 876,448	\$ 823,845
Notes and bonds payable—Note 9	2,375,000	2,727,500
Deferred revenue		2,405
Tenant deposits	7,698	7,698
Gift annuities and planned giving liabilities	204,202	211,638
Total Liabilities	<u>3,463,348</u>	<u>3,773,086</u>
Net Assets		
Without donor restrictions		
Undesignated	16,674,554	16,993,393
Board designated—Note 10	753,907	1,479,007
Total Net Assets Without Donor Restrictions	<u>17,428,461</u>	<u>18,472,400</u>
With donor restrictions		
Purpose-restricted—Note 11	367,740	650,902
Time-restricted—Note 11	16,830,318	16,260,991
Subject to appropriation—Notes 11 and 12	2,232,155	1,782,007
Held in perpetuity—Notes 11 and 12	9,080,170	8,974,182
Total Net Assets With Donor Restrictions	<u>28,510,383</u>	<u>27,668,082</u>
Total Net Assets	<u>45,938,844</u>	<u>46,140,482</u>
Total Liabilities and Net Assets	<u>\$ 49,402,192</u>	<u>\$ 49,913,568</u>

See notes to financial statements.

Japanese American National Museum
Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support			
Contributions and grant income	\$ 2,214,196	\$ 1,691,896	\$ 3,906,092
Contribution of use of Historic Building and land	840,496		840,496
Valuation of beneficial interest in split-interest arrangements		(92,018)	(92,018)
Membership fees	727,939		727,939
Special events revenue			
Gross revenue	1,076,138		1,076,138
Less: cost of direct benefits to donors	(371,056)		(371,056)
Special Events Revenue, Net	705,082		705,082
Revenue			
Admissions	275,339		275,339
Museum store, net of cost of goods sold of \$292,201	99,448		99,448
Dividend and interest income	27,030	121,113	148,143
Rental income	469,405		469,405
Contract services	561,817		561,817
Other revenue	171,778		171,778
Total Support and Revenue Before Reclassifications	6,092,530	1,720,991	7,813,521
Reclassifications			
Net assets released from restrictions	1,518,726	(1,518,726)	
Total Support and Revenue After Reclassifications	7,611,256	202,265	7,813,521
Expenses			
Program services	6,169,905		6,169,905
Management and general	1,693,089		1,693,089
Fundraising and development	840,556		840,556
Total Expenses	8,703,550		8,703,550
Change in Net Assets from Operations	(1,092,294)	202,265	(890,029)
Nonoperating Activities			
Investment return, net	48,355	640,036	688,391
Total Nonoperating Activities	48,355	640,036	688,391
Change in Net Assets	(1,043,939)	842,301	(201,638)
Net Assets at Beginning of Year	18,472,400	27,668,082	46,140,482
Net Assets at End of Year	\$ 17,428,461	\$ 28,510,383	\$ 45,938,844

See notes to financial statements.

Japanese American National Museum
Statement of Activities
Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support			
Contributions and grant income	\$ 1,768,434	\$ 1,164,454	\$ 2,932,888
Contribution of use of Historic Building and land	860,152		860,152
Valuation of beneficial interest in split-interest arrangements		114,500	114,500
Membership fees	685,782		685,782
Special events revenue			
Gross revenue	1,129,332		1,129,332
Less: cost of direct benefits to donors	(361,939)		(361,939)
Special Events Revenue, Net	767,393		767,393
Revenue			
Admissions	243,698		243,698
Museum store, net of cost of goods sold of \$202,585	205,383		205,383
Dividend and interest income	54,032	183,191	237,223
Rental income	425,816		425,816
Contract services	144,684		144,684
Other revenue	71,656		71,656
Total Support and Revenue Before Reclassifications	5,227,030	1,462,145	6,689,175
Reclassifications			
Net assets released from restrictions	1,540,302	(1,540,302)	
Total Support and Revenue After Reclassifications	6,767,332	(78,157)	6,689,175
Expenses			
Program services	5,906,625		5,906,625
Management and general	1,535,832		1,535,832
Fundraising and development	901,043		901,043
Total Expenses	8,343,500		8,343,500
Change in Net Assets from Operations	(1,576,168)	(78,157)	(1,654,325)
Nonoperating Activities			
Investment return, net	148,152	421,376	569,528
Total Nonoperating Activities	148,152	421,376	569,528
Change in Net Assets	(1,428,016)	343,219	(1,084,797)
Net Assets at Beginning of Year	19,900,416	27,324,863	47,225,279
Net Assets at End of Year	\$ 18,472,400	\$ 27,668,082	\$ 46,140,482

See notes to financial statements.

Japanese American National Museum
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Management and General	Fundraising and Development	Special Events	Total
Expenses					
Salaries	\$ 1,483,379	\$ 614,273	\$ 506,820	\$	\$ 2,604,472
Payroll taxes	106,429	45,482	36,572		188,483
Other employee benefits	176,126	70,789	61,165		308,080
Total Personnel Expenses	1,765,934	730,544	604,557		3,101,035
Contracted services	988,728	316,472	53,734		1,358,934
Facility and parking rental	1,184,276	98,105	33,820		1,316,201
Depreciation	830,811	35,584	24,133		890,528
Professional fees	236,619	208,067	44,067		488,753
Utilities	431,982	28,307	12,758		473,047
Cost of direct benefits to donors				371,056	371,056
Cost of goods sold, museum store	292,201				292,201
Travel, meetings, and memberships	134,286	57,153	33,724		225,163
Supplies, materials, and equipment	123,857	65,391	9,019		198,267
Interest	173,216	10,795	5,114		189,125
Insurance	52,811	61,009	2,112		115,932
Telephone	93,782	9,573	3,368		106,723
Postage and delivery	79,708	1,394	858		81,960
Bank and merchant fees	34,087	31,492	8,770		74,349
Advertising	21,076	16,189			37,265
Other expenses	9,895	15,360	4,353		29,608
Taxes, licenses, permits, and fees	8,837	7,654	169		16,660
Total Expenses by Function	6,462,106	1,693,089	840,556	371,056	9,366,807
Less:					
Cost of direct benefits to donors				(371,056)	(371,056)
Cost of goods sold, museum store	(292,201)				(292,201)
Total Expenses	\$ 6,169,905	\$ 1,693,089	\$ 840,556	\$	\$ 8,703,550

See notes to financial statements.

Japanese American National Museum
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Management and General	Fundraising and Development	Special Events	Total
Expenses					
Salaries	\$ 1,418,924	\$ 414,598	\$ 484,691	\$	\$ 2,318,213
Payroll taxes	102,366	29,812	35,564		167,742
Other employee benefits	176,087	51,262	62,579		289,928
Total Personnel Expenses	1,697,377	495,672	582,834		2,775,883
Facility and parking rental	1,177,017	67,411	33,318		1,277,746
Contracted services	742,156	321,697	58,926		1,122,779
Depreciation	840,844	36,013	24,425		901,282
Professional fees	286,237	230,893	99,944		617,074
Utilities	394,442	69,354	11,640		475,436
Cost of direct benefits to donors				361,939	361,939
Supplies, materials, and equipment	165,719	44,821	24,515		235,055
Travel, meetings, and memberships	100,670	87,245	42,922		230,837
Cost of goods sold, museum museum store	202,585				202,585
Interest	160,557	12,176	4,740		177,473
Telephone	116,129	15,624	3,723		135,476
Postage and delivery	115,863	4,654	1,269		121,786
Insurance	36,550	79,119	1,229		116,898
Bank and merchant fees	33,020	21,447	8,292		62,759
Advertising	24,663	24,725			49,388
Other expenses	6,521	24,981	2,398		33,900
Taxes, licenses, permits, and fees	8,860		868		9,728
Total Expenses by Function	6,109,210	1,535,832	901,043	361,939	8,908,024
Less: cost of direct benefits					
Cost of direct benefit to donors				(361,939)	(361,939)
Cost of goods sold, museum store	(202,585)				(202,585)
Total Expenses	\$ 5,906,625	\$ 1,535,832	\$ 901,043	\$	\$ 8,343,500

See notes to financial statements.

Japanese American National Museum
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operations		
Change in net assets	\$ (201,638)	\$ (1,084,797)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	890,528	901,282
Amortization of forgivable debt	(7,500)	(15,000)
Net realized and unrealized gain on investment	(688,391)	(569,528)
Valuation of beneficial interest in split-interest arrangements	115,515	(105,398)
Permanently restricted contributions	(100,133)	(5,000)
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash: gift annuities	(16,062)	1,957
Decrease in inventories, net	74,613	18,197
Increase in pledges and grants receivable, net	(1,035,892)	(633,380)
Decrease in leased Historic Building and land lease	322,814	303,158
(Increase) decrease in other assets	(16,709)	52,921
Decrease in capitalized bond issuance costs, net	28,389	28,389
Increase in accounts payable and accrued expenses	52,603	217,622
Decrease in other liabilities	(2,405)	(7,595)
Decrease in gift annuities and planned giving liabilities	(7,436)	(11,008)
Cash Used in Operating Activities	(591,704)	(908,180)
Cash Flows from Investing Activities		
Purchases of property and equipment	(114,891)	(398,579)
Purchases of investments in securities	(247,801)	(236,993)
Proceeds from sales of investments in securities	1,111,010	1,365,953
Cash Provided by Investing Activities	748,318	730,381
Cash Flows from Financing Activities		
Permanently restricted contributions	100,133	5,000
Payment of bond principal	(345,000)	(330,000)
Cash Used in Financing Activities	(244,867)	(325,000)
Net Decrease in Cash	(88,253)	(502,799)
Cash at Beginning of Year	511,369	1,014,168
Cash at End of Year	\$ 423,116	\$ 511,369
Supplementary Disclosures		
Income taxes paid	\$	\$
Interest paid	\$ 189,125	\$ 177,473

See notes to financial statements.

Japanese American National Museum
Notes to Financial Statements
June 30, 2019 and 2018

Note 1—Organization and Summary of Significant Accounting Policies

Organization—The Japanese American National Museum (National Museum) is a California not-for-profit corporation, incorporated March 1, 1985 in the State of California. The mission of the National Museum is to promote understanding and appreciation of America's ethnic and cultural diversity by sharing the Japanese American experience. As the premier institution in its field, the National Museum houses the largest well-documented collection of Japanese American artifacts in the world. The National Museum sponsors ongoing exhibitions, lectures, workshops, educational programs, and related events at its Los Angeles headquarters. As a "museum without borders", the institution regularly presents exhibitions, public programs, and research projects in collaboration with Japanese American communities, other ethnic communities, and pre-eminent scholars, museums, and educational and cultural institutions around the globe. The National Museum is accredited by the American Association of Museums and is an affiliate of the Smithsonian Institution.

Artifact Collection—The National Museum's artifact collection is comprised of objects, photographs, home movies, books, manuscripts, works of art, and artifacts of historical significance that are held for educational and curatorial purposes. Each item is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The artifact collection, which was acquired primarily through contributions since the National Museum's inception, is not recognized as an asset on the statement of financial position. The National Museum's collection policies are consistent with the Code of Ethics for Museums adopted by the American Association of Museums.

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The National Museum has adopted ASU 2016-14 for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The National Museum's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the National Museum and changes therein are presented and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the National Museum. These net assets may be used at the discretion of the National Museum's management and the board of trustees.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the National Museum and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the National Museum to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of the National Museum's program services; interest and dividends earned on investments, etc. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Internal Revenue Service (IRS) has classified the National Museum as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the National Museum is exempt from California state income taxes from the Franchise Tax Board.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2019 and 2018. Generally, the National Museum's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on premises generated through the course of daily activities and cash on deposit with banks as well as money market funds or short-term investments held at financial institutions, with original maturities of three months or less from the date of purchase.

Restricted Cash: Gift Annuities—Restricted cash: gift annuities represents the National Museum's charitable gift annuity fund. The National Museum offers a charitable remainder annuities program for those who desire to donate. The National Museum's annuities are written under authority granted to it by the Insurance Commissioner of the State of California. Annuity assets are held by a custodian at fair value. All investments are in a money market fund. Payments are made from these assets to the annuity beneficiary in accordance with the contract.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Inventories—Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out (FIFO) method. Inventories consist of sundry items such as books, gift items, cards and educational materials available through the National Museum's retail store. The National Museum's allowance for excess and obsolete inventory amounted to \$100,000 and \$100,000 at June 30, 2019 and 2018, respectively.

Concentration of Credit Risk—Cash and cash equivalents, investments in securities, and receivables are the primary form of concentration of credit risk to which the National Museum is subject. The National Museum places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash held in investment accounts at investment custodians are insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000. At times, in the normal course of business, such cash balances are in excess of the FDIC/SIPC insurance limits, but management deems the risk of loss due to these concentrations to be minimal. Conservative investment guidelines established by the Board of Trustees (Board) govern the National Museum's investments in securities to achieve diversification of the portfolio.

During the year ended June 30, 2019, two donors each contributed 13% of total contributions and grant income. No such concentrations existed during the year ended June 30, 2018.

Allowance for Doubtful Accounts—An allowance for uncollectible amounts is determined using the age of the receivable, creditworthiness of parties and historical collection experience.

Fair Value of Financial Instruments—The fair value of the National Museum's financial instruments as of June 30, 2019 and 2018 represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any observable inputs, management's own judgments about the assumptions of market participants were used in pricing the asset. Those judgments are developed by management based on the best information available in the circumstances as further detailed in Note 5 to the financial statements.

Investments—Investments in securities are initially recorded at cost, if purchased, or fair market value, if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment income, gains and losses are reported as unrestricted income unless use of the earnings is restricted by the donor.

Land Held for Investment—Undeveloped land was donated in 1990 and was recorded at the estimated fair market value on the date of receipt. It is the intention of the National Museum to hold the land as a long-term investment. The property is carried at the lower of the value recorded at the date of receipt or net realizable value.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Beneficial Interest in Split-Interest Arrangements—The National Museum is the beneficiary under various charitable remainder trusts. The National Museum is the trustee of some of the irrevocable and revocable trusts; others are administered by third party trustees.

National Museum as Trustee—For irrevocable agreements, assets are included in the National Museum's beneficial interest in split-interest arrangements and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is based on the present value of the future payments discounted at the appropriate risk-free rate at the inception of each agreement and the applicable mortality tables.

Liabilities are adjusted during the terms of the trust for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled \$204,202 and \$211,638 at June 30, 2019 and 2018, respectively, and are included in gift annuities and planned giving liabilities in the statement of financial position. The Annuity 2000 Mortality Table was used for both of the years ended June 30, 2019 and 2018.

Assets held by others—The National Museum is the beneficiary of charitable remainder trusts held and administered by others. The present value of the estimated future cash flows from these trusts approximates the value of the underlying assets and is included in beneficial interest in split-interest arrangements in the statement of financial position. Contribution revenues are recognized at the date the trusts are established.

Property and Equipment—Purchased property and equipment are recorded at cost, and donated assets are recorded at the estimated fair value on the date of receipt. The National Museum depreciates its property and equipment using the straight-line-method over the following estimated useful lives:

Furniture, fixtures and equipment	3-10 years
Building improvements	10-20 years
Buildings	55 years
Exhibition and media development costs	5-10 years

Japanese American National Museum
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Repairs and maintenance costs are expensed as incurred. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used and gifts of cash or other assets that must be used to acquire and maintain long-lived assets are reported as restricted support. Absent explicit donor stipulations, the National Museum reports expirations of donor restrictions when such long-lived assets are placed in service.

Capitalized Bond Issuance Costs—Bond discount and issuance costs are amortized as additional interest expense based on the terms of the bond using the straight-line method, which approximates the effective interest method.

Revenue Recognition—The National Museum's revenue recognition policies are as follows:

Contributions—Contributions are reported as support in the period received and as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expiration of purpose-restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the accompanying statement of activities. Contributions whose restrictions are met in the same year as the contribution is made are initially classified as net assets with purpose-restrictions. Amounts expected to be collected beyond one year are recorded at the present value of estimated future cash flows. Management determined an appropriate interest rate based on historical risk-free interest adjusted for determined risk. The amortization of the discount is included in support.

Grants and contracts—Revenues from grants and contracts are reported as increases on net assets without donor restrictions as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable.

Membership fees—Membership fees are recognized as revenue when such income is received.

Admissions and contract services—Revenues from service revenue are recognized at the time services are provided.

Auxiliary enterprises—Revenues from supporting services, such as the National Museum gift shop, are recorded at the time of delivery of a product or service.

Investment gain (loss)—Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

Rental Income—Rental income consists of facilities rental fees earned from unrelated third parties including retail vendors, film production companies, and individuals. Rental income is recognized upon the occurrence of the events for which the facilities were rented.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Benefits Provided to Donors at Special Events—The National Museum conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. The National Museum values benefits, primarily the meals and entertainment, at the actual cost.

Contributed Services—A substantial number of unpaid volunteers have made significant contributions of their time and services to further the National Museum’s mission. During the years ended June 30, 2019 and 2018, these in-kind contributions amounted to over 25,000 and 28,000 volunteer hours valued at approximately \$500,000 and \$560,000, respectively. These amounts are not reflected in these financial statements as the recognition criteria under GAAP were not met.

Functional Expenses—The costs of providing the various program and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been directly charged to the program services and supporting services benefitted. Facility and parking rental, depreciation, and utilities are allocated on the basis of square footage. Salaries, payroll taxes, other employee benefits, contracted services, professional fees, supplies, materials, and equipment, travel, meetings, and memberships, interest, telephone, postage and delivery, insurance, bank and merchant fees, advertising, other expenses, and taxes, licenses, permits and fees are allocated on the basis of estimates of time and effort.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications—Certain amounts in 2018 have been reclassified to conform with the 2019 financial statement presentation.

Note 2—Availability and Liquidity

The National Museum's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$1.5 million dollars). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity—Continued

The following represents the availability and liquidity of the National Museum's financial assets at June 30, 2019 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 55,376
Pledges and grants receivable, net	<u>794,870</u>
Current Availability of Financial Assets	<u>\$ 850,246</u>

Additionally, the National Museum established a board designated reserve totaling \$753,907 at June 30, 2019 that could be made available to meet any unforeseen circumstances.

Note 3—Pledges and Grants Receivable, Net

Net pledges and grants receivable at June 30, 2019 and 2018 consist of:

	<u>2019</u>	<u>2018</u>
Due within 1 year	\$ 794,870	\$ 559,015
Due within 2 or more years	<u>2,161,490</u>	<u>1,300,000</u>
Gross	2,956,360	1,859,015
Less present value discount	<u>(137,477)</u>	<u>(76,024)</u>
Net	<u>\$ 2,818,883</u>	<u>\$ 1,782,991</u>

The present value of estimated future cash flows on unconditional promises to give was determined using a discount rate of 2% for the years ended June 30, 2019 and 2018.

Note 4—Investments

Investments consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Fixed income funds	\$ 3,210,029	\$ 3,039,316
Domestic equity funds	7,805,561	8,076,243
International equity fund	<u>796,413</u>	<u>871,262</u>
Totals	<u>\$ 11,812,003</u>	<u>\$ 11,986,821</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 4—Investments—Continued

Return on investments for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Realized gain on investments	\$ 228,797	\$ 565,732
Unrealized gain on investments	459,594	3,796
Investment Return, Net	688,391	569,528
Investment interest and dividends	147,668	236,993
Total Return on Investments	<u>\$ 836,059</u>	<u>\$ 806,521</u>

Note 5—Beneficial Interest in Split-Interest Arrangements

Beneficial interest in split-interest arrangements, by trustee, consists of the following:

	<u>National Museum</u>	<u>Others</u>	<u>Total</u>
Beneficial Interest in Split-Interest Arrangements at July 1, 2017	\$ 627,197	\$ 1,492,678	\$ 2,119,875
Amortization of discount, payments to income beneficiaries, and income	(1,410)	106,808	105,398
Beneficial Interest in Split-Interest Arrangements at June 30, 2018	625,787	1,599,486	2,225,273
Amortization of discount, payments to income beneficiaries, and income	30,641	(146,156)	(115,515)
Beneficial Interest in Split-Interest Arrangements at June 30, 2019	<u>\$ 656,428</u>	<u>\$ 1,453,330</u>	<u>\$ 2,109,758</u>

Payout rates ranged between 6% for those assets held by the National Museum, and 5% and 8% for assets held by others.

The National Museum used a discount rate under Internal Revenue Code section 7520(a) of 2.2% to value all trust assets as of June 30, 2019 and 2018. Included with charitable remainder trusts is real property. Real property market value was \$180,000 at June 30, 2019 and 2018. The remaining assets are invested in various institutional trust funds for which the underlying assets are generally traded in public or private markets and are reported at fair value. The charitable remainder trust amounts include vested and non-vested trusts, of which only the vested portions are recognized by the National Museum.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 6—Fair Value

In determining the fair value of assets and liabilities, the National Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The National Museum determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the National Museum at the measurement date.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment. The National Museum’s Level 3 assets include beneficial interests in split-interest arrangements, and assets and liabilities related to its gift annuities.

The National Museum may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the National Museum to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. The National Museum had no assets or liabilities classified at NAV as a practical expedient during the years ended June 30, 2019 and 2018. Assets and liabilities measured at fair value on a recurring basis at June 30, 2019 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments	\$ 11,812,003	\$	\$	\$ 11,812,003
Split-interest arrangements			2,109,758	2,109,758
Planned giving liabilities			(150,545)	(150,545)
Gift annuities—assets	65,513			65,513
Gift annuities—liabilities			(53,657)	(53,657)
Totals	<u>\$ 11,877,516</u>	<u>\$</u>	<u>\$ 1,905,556</u>	<u>\$ 13,783,072</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 6—Fair Value—Continued

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments	\$ 11,986,821	\$	\$	\$ 11,986,821
Split-interest arrangements			2,225,273	2,225,273
Planned giving liabilities			(155,738)	(155,738)
Gift annuities—assets	49,451			49,451
Gift annuities—liabilities			(55,900)	(55,900)
Totals	<u>\$ 12,036,272</u>	<u>\$</u>	<u>\$ 2,013,635</u>	<u>\$ 14,049,907</u>

A reconciliation of the National Museum's Level 3 assets and liabilities is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 2,013,635	\$ 1,897,229
Change in value of split-interest arrangements	(108,079)	116,406
Ending Balance	<u>\$ 1,905,556</u>	<u>\$ 2,013,635</u>

Note 7—Historic Building and Land Leases

In February 1987, the National Museum entered into a 50-year lease at \$1 per year with the City of Los Angeles for the use of land and a 33,000 square foot building (Historic Building). The National Museum restored the facility and opened it to the public in May 1992. In February 1997, the original lease was superseded by a new 55-year lease with the City of Los Angeles for the same property, as well as three adjacent parcels of land, the largest of which is the site of an 85,000 square foot expansion pavilion, which opened to the public in January 1999. In 2002, the lease was amended to provide an additional 5,000 square feet for use by the National Museum. The present value of the building and land lease is \$7,804,112 and \$7,878,922 as of June 30, 2019 and 2018, respectively, based on an annual estimated lease expense of \$594,060 and a discount rate of 6.6%.

The Historic Building was expanded and renovated to support the National Center for the Preservation of Democracy (National Center) with a \$20 million federal grant awarded in 2001. The construction was completed and the National Center was opened in October 2005. The federal government retains a reversionary interest in the building costs purchased under the grant. As such, the building costs paid with the funds received from the grant are not recorded on the National Museum's financial statements. However, the National Museum has been allowed to use the building rent-free. Accordingly, the National Museum initially recorded the present value of the building rent of \$6,881,032 as a historic building on the statement of financial position and as corresponding temporarily restricted contributions in the statement of activities for the year ended June 30, 2007, based upon an estimated annual rent expense of \$569,250 and a discount rate of 6.6%. A rent period of 25 years was used, approximating the estimated useful life of the building, as there is no definitive time restriction for the National Museum's use of the building under the grant. The present value of the Historic Building was \$4,619,353 and \$4,867,357 as of June 30, 2019 and 2018, respectively.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 8—Property and Equipment, Net

The major classes of property and equipment, net at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Museum building	\$ 30,118,137	\$ 30,118,137
Furniture, fixtures, and equipment	3,602,662	3,487,771
Exhibition and media development costs	1,812,221	1,812,221
Historic Building improvements	1,585,116	1,585,116
Museum building improvements	279,319	279,319
	<u>37,397,455</u>	<u>37,282,564</u>
Less accumulated depreciation	(18,166,845)	(17,276,317)
Net	<u>\$ 19,230,610</u>	<u>\$ 20,006,247</u>

Total depreciation expense recorded for the years ended June 30, 2019 and 2018 was \$890,528 and \$901,282, respectively.

Note 9—Notes and Bonds Payable

Notes and bonds payable as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2000A, maturing August 1, 2030. Secured by the full faith and credit of the National Museum, a lien on gross revenues, and a pledge of real property and endowment assets. The National Museum was in compliance with required financial covenants.	\$ 2,375,000	\$ 2,720,000
Noninterest-bearing note payable to the Community Redevelopment Agency of the City of Los Angeles (CRA) with \$15,000 of principal balance forgiven each year.		7,500
Totals	<u>\$ 2,375,000</u>	<u>\$ 2,727,500</u>

On June 15, 2000, the California Statewide Communities Development Authority (Issuer) sold \$10,000,000 of Variable Rate Demand Revenue Bonds (Japanese American National Museum), Series 2000A (Bonds). The proceeds were loaned by the Issuer to the National Museum pursuant to a loan agreement and were used to (a) repay and retire an existing five-year term loan provided by a group of banks and (b) to pay a portion of costs of issuance of the bonds. The bonds have a variable interest rate which is reset weekly. The effective rate was prime plus 1% (6.50% at June 30, 2019) for the years ended June 30, 2019 and 2018, respectively.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 9—Notes and Bonds Payable—Continued

The aggregate future maturities of notes payable and bonds payable are as follows:

For the Year Ending June 30,

2020	\$	360,000
2021		380,000
2022		395,000
2023		410,000
2024		430,000
Thereafter		400,000
	Total	\$ 2,375,000

Note 10—Net Assets Without Donor Restrictions

Net assets without donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 16,674,554	\$ 16,993,393
Board-designated operating reserve	753,907	1,479,007
	Totals	Totals
	\$ 17,428,461	\$ 18,472,400

Board-designated net assets are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects or investments in infrastructure. The National Museum withdrew \$800,010 from the investment accounts comprising the board-designated net assets during the year ended June 30, 2019.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 11—Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Bid for Education	\$ 200,000	\$ 430,000
Freeman Asian Arts & Cultural Education	100,000	100,000
Summer intern	12,400	12,000
Project Nancy	10,945	10,595
Volunteer program	34,395	34,395
National Endowment for Arts		30,000
Eaton Collection		21,498
Other	10,000	12,414
	<u>367,740</u>	<u>650,902</u>
Total Purpose Restrictions	367,740	650,902
Subject to time restrictions:		
Building and land lease	7,804,112	7,878,922
Historic building	4,619,352	4,867,357
General operations	4,406,854	3,514,712
	<u>16,830,318</u>	<u>16,260,991</u>
Total Subject to Time Restrictions	16,830,318	16,260,991
Subject to the National Museum's endowment spending policy and appropriation:		
Nikkei-Legacy Program	210,028	39,315
Humanities	539,294	484,135
Artistic Program	1,027,435	898,477
General operations	455,398	360,080
	<u>2,232,155</u>	<u>1,782,007</u>
Total Subject to Appropriation	2,232,155	1,782,007
Held in perpetuity:		
Nikkei-Legacy Program	3,000,000	3,000,000
Humanities	1,000,000	1,000,000
Artistic Program	2,825,520	2,819,665
General operations	2,254,650	2,154,517
	<u>9,080,170</u>	<u>8,974,182</u>
Total Held in Perpetuity	9,080,170	8,974,182
Totals	<u>\$ 28,510,383</u>	<u>\$ 27,668,082</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 11—Net Assets With Donor Restrictions—Continued

Net assets released from donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Bid for Education	\$ 230,000	\$ 100,000
Summer intern	12,000	11,000
Volunteer program		75,010
National Endowment for Arts	30,000	138,478
Eaton Collection	46,498	86,602
Other	32,414	66,547
Satisfaction of passage of time		
Building and land lease	74,810	70,508
Historic building	248,004	232,650
General operations	534,000	488,007
Subject to the National Museum's endowment spending policy and appropriation:		
Humanities	61,390	53,970
Artistic Program	143,524	126,178
General operations	106,086	91,352
Totals	<u>\$ 1,518,726</u>	<u>\$ 1,540,302</u>

Note 12—Endowment Net Assets

The National Museum's endowment consists of its beneficial interest in split-interest agreements held by others, and one investment fund and four unified pools of investments managed by the National Museum established to support its operations and programs. The endowment comprises donor-restricted endowment funds only and, as of June 30, 2019 and 2018, there were no funds designated by the Board to function as endowments. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 12—Endowment Net Assets—Continued

The National Museum classifies net assets that are perpetual in nature 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. The remaining portion of the donor-restricted endowment fund that is not classified in net assets that are perpetual in nature is classified as purpose-restricted net assets until those amounts are appropriated for expenditure by the National Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the National 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 National 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 National Museum
- 7) The investment policies of the National Museum

Return Objectives and Risk Parameters—It is the purpose of the National Museum's endowment fund to secure the future of the National Museum and to support its programs and operations as designated by the Board.

The primary long-term financial objective is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the endowment through a prudent long-term investment strategy. This objective should be achieved over rolling three-, five-, and ten-year periods on a total return basis. An additional objective is to provide a relatively predictable, stable, and (in real terms) constant stream of current income for the National Museum's annual operating needs.

The primary investment objective of the endowment is to earn an average annual minimum nominal return of 8% per year and a real total return of at least 5% per year, net of management fees, over the long-term (rolling three-, five- and ten-year periods). The National Museum considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for those having the lowest risk.

Strategies Employed for Achieving Objectives—The National Museum manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year, not favoring returns from one source over another.

The National Museum has determined that marketable debt and equity securities traded in the United States are appropriate investments consistent with its return objectives and risk parameters. Cash invested in money market accounts is also an acceptable investment within these guidelines. The investment portfolio is to be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 12—Endowment Net Assets—Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy—The National Museum has a policy governing the amount of endowment earnings that can be released annually for spending, consistent with the restrictions, if any, placed on the endowment by donors. The spending policy authorizes an annual distribution equal to 5% of the average market value of the portfolios as of the preceding 20 calendar quarters, subject to the requirement that the portfolios increase by an inflation factor annually.

In establishing this policy, the National Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the National Museum expects the current spending policy to allow its endowment to grow at an amount that will at least keep pace with expected inflation.

Summary of Endowment Fund Balances and Activity—Endowment net asset composition by donor-imposed stipulations for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Nikkei Legacy program	\$ 3,000,000	\$ 3,000,000
Artistic programs	2,825,519	2,819,665
General operating purposes	2,254,651	2,154,517
Humanities programs	1,000,000	1,000,000
Totals	<u>\$ 9,080,170</u>	<u>\$ 8,974,182</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 12—Endowment Net Assets—Continued

Change in endowment net assets for the year ended June 30, 2019 and 2018 consists of:

	<u>Subject to Appropriation</u>	<u>Held In Perpetuity</u>	<u>Total</u>
Endowment Net Assets at June 30, 2017	\$ 1,448,939	\$ 8,966,401	\$ 10,415,340
Investment income	183,191		183,191
Change in value of split-interest agreements		2,781	2,781
Realized and unrealized gain on investments, net	421,376		421,376
Total Investment Return	604,567	2,781	607,348
Contributions		5,000	5,000
Appropriation of expenditure	(271,500)		(271,500)
Endowment Net Assets at June 30, 2018	1,782,006	8,974,182	10,756,188
Investment income	121,113		121,113
Change in value of split-interest agreements		5,855	5,855
Realized and unrealized gain on investments, net	640,036		640,036
Total Investment Return	761,149	5,855	767,004
Contributions		100,133	100,133
Appropriation of expenditure	(311,000)		(311,000)
Endowment Net Assets at June 30, 2019	\$ 2,232,155	\$ 9,080,170	\$ 11,312,325

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Employee Benefit Plan

The National Museum has a defined contribution retirement plan covering substantially all of its employees. The Board annually determines the amount to be contributed to the plan. Participants are fully vested after five years of service. The National Museum made contributions of \$13,919 and \$9,605 to the plan during the years ended June 30, 2019 and 2018, respectively.

Note 14—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the National Museum in 2020; early adoption is permitted. The National Museum is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018; early adoption is permitted for fiscal years beginning after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. The National Museum is evaluating whether this will have a material impact on its financial statements.

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 14—Recent Accounting Pronouncements—Continued

ASU 2018-08 is effective for resource recipients with fiscal years beginning after December 15, 2018, and for resource providers with fiscal years beginning after December 15, 2019; early adoption is permitted. The National Museum is currently evaluating the impact that the adoption of ASU 2018-08 will have on its financial statements.

Note 15—Subsequent Events

Management evaluated all activities of Japanese American National Museum through October 25, 2019, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.