

Audited Financial Statements



JAPANESE AMERICAN NATIONAL MUSEUM

June 30, 2020 and 2019

Quigley & Miron

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

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, 2020 and 2019, 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

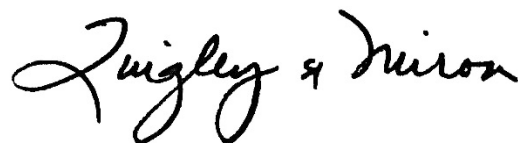
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2020 and 2019, 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 23, 2020

Japanese American National Museum
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 1,350,923	\$ 423,116
Restricted cash: gift annuities	45,596	65,513
Inventories, net	265,558	265,476
Pledges and grants receivable, net—Note 3	4,118,821	2,818,883
Investments—Note 4	12,261,175	11,812,003
Land held for investment	36,000	36,000
Beneficial interest in split-interest arrangements—Note 5	1,788,510	2,109,758
Building and land lease—Note 7	7,724,717	7,804,112
Historic Building—Note 7	4,354,980	4,619,353
Other assets	167,380	160,589
Property and equipment, net—Note 8	18,560,289	19,230,610
Capitalized bond issuance costs, net	28,390	56,779
Artifact collection—Note 1		
Total Assets	<u>\$ 50,702,339</u>	<u>\$ 49,402,192</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 779,977	\$ 876,448
Bonds payable—Note 9	2,375,000	2,375,000
PPP advance—Note 10	580,062	
EIDL loan—Note 10	150,000	
Deferred revenue	4,000	
Tenant deposits	7,698	7,698
Gift annuities and planned giving liabilities	230,632	204,202
Total Liabilities	<u>4,127,369</u>	<u>3,463,348</u>
Net Assets		
Without donor restrictions		
Undesignated	15,798,342	16,674,554
Board designated—Note 11	926,964	753,907
Total Net Assets Without Donor Restrictions	<u>16,725,306</u>	<u>17,428,461</u>
With donor restrictions		
Purpose-restricted—Note 12	723,578	367,740
Time-restricted—Note 12	17,554,083	16,830,318
Subject to appropriation—Notes 12 and 13	2,498,153	2,232,155
Held in perpetuity—Notes 12 and 13	9,073,850	9,080,170
Total Net Assets With Donor Restrictions	<u>29,849,664</u>	<u>28,510,383</u>
Total Net Assets	<u>46,574,970</u>	<u>45,938,844</u>
Total Liabilities and Net Assets	<u>\$ 50,702,339</u>	<u>\$ 49,402,192</u>

See notes to financial statements.

Japanese American National Museum
Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support			
Contributions and grant income	\$ 800,668	\$ 4,212,113	\$ 5,012,781
Contribution of use of Historic Building and land	819,542		819,542
Membership fees	700,567		700,567
Special events			
Gross revenue	933,620		933,620
Less cost of direct benefits to donors	(178,525)		(178,525)
Special Events, Net	755,095		755,095
Revenue			
Admissions	158,148		158,148
Museum store, net of cost of goods sold of \$166,257	168,137		168,137
Dividend and interest income	5,750	180,605	186,355
Rental income	299,727		299,727
Contract services	517,280		517,280
Other revenue	115,305		115,305
Total Support and Revenue Before Reclassifications	4,340,219	4,392,718	8,732,937
Reclassifications			
Net assets released from restrictions	3,114,132	(3,114,132)	
Total Support and Revenue After Reclassifications	7,454,351	1,278,586	8,732,937
Expenses			
Program services	5,654,662		5,654,662
Management and general	1,703,568		1,703,568
Fundraising and development	834,831		834,831
Total Expenses	8,193,061		8,193,061
Change in Net Assets from Operations	(738,710)	1,278,586	539,876
Nonoperating Activities			
Valuation of beneficial interest in split-interest arrangements		(367,595)	(367,595)
Investment return, net	35,555	428,290	463,845
Total Nonoperating Activities	35,555	60,695	96,250
Change in Net Assets	(703,155)	1,339,281	636,126
Net Assets at Beginning of Year	17,428,461	28,510,383	45,938,844
Net Assets at End of Year	\$ 16,725,306	\$ 29,849,664	\$ 46,574,970

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
Membership fees	727,939		727,939
Special events			
Gross revenue	1,076,138		1,076,138
Less cost of direct benefits to donors	(371,056)		(371,056)
Special Events, 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	1,813,009	7,905,539
Reclassifications			
Net assets released from restrictions	1,518,726	(1,518,726)	
Total Support and Revenue After Reclassifications	7,611,256	294,283	7,905,539
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)	294,283	(798,011)
Nonoperating Activities			
Valuation of beneficial interest in split-interest arrangements		(92,018)	(92,018)
Investment return, net	48,355	640,036	688,391
Total Nonoperating Activities	48,355	548,018	596,373
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 Functional Expenses
Year Ended June 30, 2020

Program Services

	Program Services					Total Program Services	Management and General	Fundraising and Development	Special Events	Total
Expenses	Membership	Exhibits	Education	Marketing	Store					
Salaries	\$ 52,853	\$ 587,760	\$ 528,775	\$ 126,968	\$ 162,402	\$ 1,458,758	\$ 616,700	\$ 511,627	\$	\$ 2,587,085
Payroll taxes	3,824	42,825	38,222	9,239	11,733	105,843	44,460	37,008		187,311
Other employee benefits	6,073	89,110	61,038	14,819	18,370	189,410	65,665	58,348		313,423
Total Personnel Expenses	62,750	719,695	628,035	151,026	192,505	1,754,011	726,825	606,983		3,087,819
Facility and parking rental	4,749	815,397	318,625	14,246	48,071	1,201,088	56,077	34,371		1,291,536
Depreciation	30,815	441,402	298,614	14,119	47,642	832,592	50,067	33,956		916,615
Contracted services	3,683	398,414	179,548	5,281	21,607	608,533	137,182	45,717		791,432
Professional fees	103	135,784	102,027	309	5,831	244,054	267,718	54,811		566,583
Utilities	1,692	282,276	107,355	5,076	17,128	413,527	13,628	12,207		439,362
Taxes, licenses, permits, and fees	2	255	97	5	290	649	236,969	313		237,931
Cost of direct benefits to donors									178,525	178,525
Supplies, materials, and equipment	237	78,996	34,482	737	17,693	132,145	29,940	4,899		166,984
Cost of goods sold, museum store					166,257	166,257				166,257
Interest	3,893	99,195	37,726	1,784	6,019	148,617	6,325	4,290		159,232
Travel, meetings, and memberships	250	45,690	39,581	41	2,058	87,620	39,437	9,682		136,739
Telephone	396	65,989	25,097	1,187	4,004	96,673	15,921	3,354		115,948
Insurance	188	31,354	11,925	564	1,902	45,933	62,302	1,606		109,841
Bank and merchant fees	6,578	9,407	80		15,708	31,773	33,981	7,173		72,927
Postage and delivery	63	30,786	4,254	189	2,565	37,857	932	7,332		46,121
Other expenses	5	8,636	2,058	14	544	11,257	17,520	4,932		33,709
Advertising			8,333			8,333	8,744	3,205		20,282
Total Expenses by Function	115,404	3,163,276	1,797,837	194,578	549,824	5,820,919	1,703,568	834,831	178,525	8,537,843
Less expenses included with revenues on the statement of activities										
Cost of direct benefits to donors									(178,525)	(178,525)
Cost of goods sold, museum store					(166,257)	(166,257)				(166,257)
Total Expenses	\$ 115,404	\$ 3,163,276	\$ 1,797,837	\$ 194,578	\$ 383,567	\$ 5,654,662	\$ 1,703,568	\$ 834,831	\$	\$ 8,193,061

See notes to financial statements.

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

Program Services

Expenses	Program Services					Total Program Services	Management and General	Fundraising and Development	Special Events	Total
	Membership	Exhibits	Education	Marketing	Store					
Salaries	\$ 47,826	\$ 572,598	\$ 526,312	\$ 173,338	\$ 163,305	\$ 1,483,379	\$ 614,273	\$ 506,820	\$	\$ 2,604,472
Payroll taxes	3,598	40,813	38,172	12,152	11,694	106,429	45,482	36,572		188,483
Other employee benefits	4,949	75,015	59,212	18,446	18,504	176,126	70,789	61,165		308,080
Total Personnel Expenses	56,373	688,426	623,696	203,936	193,503	1,765,934	730,544	604,557		3,101,035
Contracted services	4,674	711,559	229,363	6,382	36,748	988,726	316,472	53,734		1,358,932
Facility and parking rental	4,640	804,739	313,993	13,919	46,985	1,184,276	98,105	33,820		1,316,201
Depreciation	26,454	456,491	288,249	13,629	45,988	830,811	35,584	24,133		890,528
Professional fees	434	94,001	134,161	829	7,194	236,619	208,067	44,067		488,753
Utilities	1,768	294,873	112,146	5,303	17,892	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				292,201
Travel, meetings, and memberships	147	39,286	92,475	16	2,362	134,286	57,153	33,724		225,163
Supplies, materials, and equipment	845	76,875	42,159	440	3,538	123,857	65,391	9,019		198,267
Interest	709	118,239	44,968	2,126	7,174	173,216	10,795	5,114		189,125
Insurance	184	38,571	11,647	551	1,858	52,811	61,009	2,112		115,932
Telephone	384	64,016	24,347	1,151	3,884	93,782	9,573	3,368		106,723
Postage and delivery	79	70,699	5,541	236	3,153	79,708	1,394	858		81,960
Bank and merchant fees	6,723	11,137			16,227	34,087	31,492	8,770		74,349
Advertising	17	1,166	17,972	51	174	19,380	16,189			35,569
Other expenses	34	4,769	5,472	18	1,300	11,593	15,360	4,353		31,306
Taxes, licenses, permits, and fees	10	6,604	1,607	29	587	8,837	7,654	169		16,660
Total Expenses by Function	103,475	3,481,451	1,947,796	248,616	680,768	6,462,106	1,693,089	840,556	371,056	9,366,807
Less expenses included with revenues on the statement of activities										
Cost of direct benefits to donors									(371,056)	(371,056)
Cost of goods sold, museum store					(292,201)	(292,201)				(292,201)
Total Expenses	\$ 103,475	\$ 3,481,451	\$ 1,947,796	\$ 248,616	\$ 388,567	\$ 6,169,905	\$ 1,693,089	\$ 840,556	\$	\$ 8,703,550

See notes to financial statements.

Japanese American National Museum
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operations		
Change in net assets	\$ 636,126	\$ (201,638)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	916,615	890,528
Amortization of forgivable debt		(7,500)
Net realized and unrealized gain on investment	(463,845)	(688,391)
Valuation of beneficial interest in split-interest arrangements	321,248	115,515
Permanently restricted contributions		(100,133)
Changes in operating assets and liabilities:		
(Increase) decrease in inventories, net	(82)	74,613
Increase in pledges and grants receivable, net	(1,299,938)	(1,035,892)
Decrease in leased Historic Building and land lease	343,768	322,814
Increase in other assets	(6,791)	(16,709)
Decrease in capitalized bond issuance costs, net	28,389	28,389
Increase (decrease) in accounts payable and accrued expenses	(96,471)	52,603
Increase (decrease) in other liabilities	4,000	(2,405)
Increase (decrease) in gift annuities and planned giving liabilities	26,430	(7,436)
Cash Provided by (Used in) Operating Activities	409,449	(575,642)
Cash Flows from Investing Activities		
Purchases of property and equipment	(246,294)	(114,891)
Purchases of investments in securities	(185,327)	(247,801)
Proceeds from sales of investments in securities	200,000	1,111,010
Cash Provided by (Used in) Investing Activities	(231,621)	748,318
Cash Flows from Financing Activities		
Permanently restricted contributions		100,133
Proceeds from PPP advance	580,062	
Proceeds from EIDL note	150,000	
Payment of bond principal		(345,000)
Cash Provided by (Used in) Financing Activities	730,062	(244,867)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	907,890	(72,191)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	488,629	560,820
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 1,396,519	\$ 488,629
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$ 159,232</u>	<u>\$ 189,125</u>

See notes to financial statements.

Japanese American National Museum
Notes to Financial Statements
June 30, 2020 and 2019

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—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.

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.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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.

Recently Adopted Accounting Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by the National Museum for the year ended June 30, 2020, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements. The National Museum has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

Restricted Cash—In February 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. The National Museum has adopted ASU No. 2016-18 on a retrospective basis for the year ended June 30, 2020, and has adjusted the presentation of the financial statements accordingly.

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.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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, 2020 and 2019. 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—The National Museum considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the cash, cash equivalents, and restricted cash total shown in the statement of cash flows at June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,350,923	\$ 423,116
Restricted cash: gift annuities	45,596	65,513
Totals	<u>\$ 1,396,519</u>	<u>\$ 488,629</u>

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, 2020 and 2019, 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

Japanese American National Museum
Notes to Financial Statements—Continued

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

National Museum's investments in securities to achieve diversification of the portfolio.

During the year ended June 30, 2020, two donors each contributed 20% of total contributions and grant income. During the year ended June 30, 2019, two donors each contributed 13% of total contributions and grant income.

Allowance for Doubtful Accounts—An allowance for uncollectible amounts is determined using the age of the receivable, creditworthiness of parties and historical collection experience. No such allowance was necessary during the years ended June 30, 2020 and 2019.

Fair Value of Financial Instruments—The fair value of the National Museum's financial instruments as of June 30, 2020 and 2019 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.

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 \$230,632 and \$204,202 at June 30, 2020 and 2019, 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, 2020 and 2019.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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

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.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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.

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, 2020 and 2019, these in-kind contributions amounted to over 15,000 and 25,000 volunteer hours valued at approximately \$300,000 and \$500,000, 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 2019 have been reclassified to conform with the 2020 financial statement presentation.

Japanese American National Museum
Notes to Financial Statements—Continued

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.

The following represents the availability and liquidity of the National Museum's financial assets at June 30, 2020 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 627,345
Pledges and grants receivable, net	<u>1,871,000</u>
Current Availability of Financial Assets	<u>\$ 2,498,345</u>

Additionally, the National Museum established a board-designated reserve totaling \$926,964 at June 30, 2020 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, 2020 and 2019 consist of:

	<u>2020</u>	<u>2019</u>
Due within 1 year	\$ 1,871,000	\$ 794,870
Due within 2 or more years	<u>2,365,690</u>	<u>2,161,490</u>
	Gross 4,236,690	2,956,360
Less present value discount	<u>(117,869)</u>	<u>(137,477)</u>
	Net <u>\$ 4,118,821</u>	<u>\$ 2,818,883</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, 2020 and 2019.

Note 4—Investments

Investments consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fixed income funds	\$ 2,566,967	\$ 3,210,029
Domestic equity funds	8,773,150	7,805,561
International equity fund	<u>921,058</u>	<u>796,413</u>
Totals	<u>\$ 12,261,175</u>	<u>\$ 11,812,003</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 4—Investments—Continued

Return on investments for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Realized gain on investments	\$ 48,346	\$ 228,797
Unrealized gain on investments	415,499	459,594
Investment Return, Net	463,845	688,391
Investment interest and dividends	185,328	147,668
Total Return on Investments	<u>\$ 649,173</u>	<u>\$ 836,059</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, 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	656,428	1,453,330	2,109,758
Amortization of discount, payments to income beneficiaries, and income	(11,239)	(310,009)	(321,248)
Beneficial Interest in Split-Interest Arrangements at June 30, 2020	<u>\$ 645,189</u>	<u>\$ 1,143,321</u>	<u>\$ 1,788,510</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, 2020 and 2019. Included with charitable remainder trusts is real property. Real property market value was \$180,000 at June 30, 2020 and 2019. 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, 2020 and 2019. Assets and liabilities measured at fair value on a recurring basis at June 30, 2020 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments	\$ 12,261,175	\$	\$	\$ 12,261,175
Split-interest arrangements			1,788,510	1,788,510
Planned giving liabilities			(176,975)	(176,975)
Gift annuities—assets	45,596			45,596
Gift annuities—liabilities			(53,657)	(53,657)
Totals	<u>\$ 12,306,771</u>	<u>\$</u>	<u>\$ 1,557,878</u>	<u>\$ 13,864,649</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, 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>

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

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,905,556	\$ 2,013,635
Change in value of split-interest arrangements	(347,678)	(108,079)
Ending Balance	<u>\$ 1,557,878</u>	<u>\$ 1,905,556</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 \$7,724,717 and \$7,804,112 as of June 30, 2020 and 2019, 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 \$4,354,980 and \$4,619,353 as of June 30, 2020 and 2019, 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Museum building	\$ 30,118,137	\$ 30,118,137
Furniture, fixtures, and equipment	3,679,559	3,602,662
Exhibition and media development costs	1,911,515	1,812,221
Historic Building improvements	1,624,219	1,585,116
Museum building improvements	310,319	279,319
	<u>37,643,749</u>	<u>37,397,455</u>
Less accumulated depreciation	<u>(19,083,460)</u>	<u>(18,166,845)</u>
Property and Equipment, Net	<u>\$ 18,560,289</u>	<u>\$ 19,230,610</u>

Total depreciation expense recorded for the years ended June 30, 2020 and 2019 was \$916,615 and \$890,528, respectively.

Note 9—Bonds Payable

Bonds payable as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</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	\$ 2,375,000
Totals	<u>\$ 2,375,000</u>	<u>\$ 2,375,000</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% (4.25% at June 30, 2020) for the years ended June 30, 2020 and 2019, 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,

2021	\$	380,000
2022		395,000
2023		410,000
2024		430,000
2025		400,000
Thereafter		<u>360,000</u>
Total	\$	<u><u>2,375,000</u></u>

Note 10—PPP Advance and EIDL Loan

On May 5, 2020, the National Museum received a \$580,062 Paycheck Protection Program (PPP) advance through the Small Business Administration (SBA) in response to the COVID-19 virus pandemic (see Note 16). While these funds carry loan repayment terms, it is the opinion of management that all funds received will be forgiven under the present terms of PPP in the upcoming fiscal year.

On May 20, 2020, the National Museum received a \$150,000 SBA Economic Injury Disaster Loan (loan). The loan requires monthly payments of principal and interest at \$641 dollars, beginning twelve months from the date of the agreement. Interest will accrue at a rate of 2.75% per annum and the balance of the loan will be payable in thirty years from the date of the agreement.

Note 11—Net Assets Without Donor Restrictions

Net assets without donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 15,798,342	\$ 16,674,554
Board-designated operating reserve	<u>926,964</u>	<u>753,907</u>
Total Net Assets Without Donor Restrictions	<u><u>\$ 16,725,306</u></u>	<u><u>\$ 17,428,461</u></u>

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 \$200,000 from the investment accounts comprising the board-designated net assets during the year ended June 30, 2020.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 12—Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
New core exhibits	\$ 350,000	\$
Bid for Education	100,000	200,000
Tateuchi Democracy Forum	100,000	
Bible Sutra	39,563	
School District Partner	38,515	
Volunteer program	30,000	34,395
Summer intern	19,500	12,400
County of LA family program	12,775	
County of LA public program	11,930	
Project Nancy	11,295	10,945
Freeman Asian Arts & Cultural Education		100,000
Other	10,000	10,000
	<u>723,578</u>	<u>367,740</u>
Total Subject to Purpose Restrictions	723,578	367,740
Subject to time restrictions:		
Building and land lease	7,724,717	7,804,112
Historic building	4,354,980	4,619,352
General operations	3,824,386	4,406,854
New core exhibits	950,000	
Comprehensive Campaign	500,000	
Tateuchi Democracy Forum	200,000	
	<u>17,554,083</u>	<u>16,830,318</u>
Total Subject to Time Restrictions	17,554,083	16,830,318
Subject to the National Museum's endowment spending policy and appropriation:		
Nikkei-Legacy Program	347,017	210,028
Humanities	564,597	539,294
Artistic Program	1,086,591	1,027,435
General operations	499,948	455,398
	<u>2,498,153</u>	<u>2,232,155</u>
Total Subject to Appropriation	2,498,153	2,232,155
Held in perpetuity:		
Nikkei-Legacy Program	3,000,000	3,000,000
Humanities	1,000,000	1,000,000
Artistic Program	2,819,200	2,825,520
General operations	2,254,650	2,254,650
	<u>9,073,850</u>	<u>9,080,170</u>
Total Held in Perpetuity	9,073,850	9,080,170
Total Net Assets With Donor Restrictions	<u>\$ 29,849,664</u>	<u>\$ 28,510,383</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 12—Net Assets With Donor Restrictions—Continued

Net assets released from donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Transcendents	\$ 354,713	\$
Bid for Education	100,000	230,000
Freeman Asian Arts & Cultural Education	100,000	12,000
Hapa: a Future Perspective	35,000	
HNRC	26,000	
Other	22,000	32,414
School district partner	16,485	
Summer intern	12,400	
Volunteer program	6,395	
County of LA public program	845	
Bible Sutra	437	
National Endowment for Arts		30,000
Eaton Collection		46,498
Satisfaction of passage of time:		
Comprehensive Campaign	800,000	
General operations	798,192	534,000
Historic building	264,373	248,004
Tateuchi Democracy Forum	100,000	
Building and land lease	79,395	74,810
DSYF	55,000	
Subject to the National Museum's endowment spending policy and appropriation:		
Artistic Program	157,235	143,524
General operations	118,407	106,086
Humanities	67,255	61,390
Total Net Assets Released from Donor Restrictions	<u>\$ 3,114,132</u>	<u>\$ 1,518,726</u>

Note 13—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, 2020 and 2019, 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.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Endowment Net Assets—Continued

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.

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.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Endowment Net Assets—Continued

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.

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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Nikkei Legacy program	\$ 3,000,000	\$ 3,000,000
Artistic programs	2,819,199	2,825,519
General operating purposes	2,254,651	2,254,651
Humanities programs	1,000,000	1,000,000
Totals	<u>\$ 9,073,850</u>	<u>\$ 9,080,170</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Endowment Net Assets—Continued

Change in endowment net assets for the year ended June 30, 2020 and 2019 consists of:

	<u>Subject to Appropriation</u>	<u>Held In Perpetuity</u>	<u>Total</u>
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
Investment income	180,605		180,605
Change in value of split-interest agreements		(6,320)	(6,320)
Realized and unrealized gain on investments, net	428,290		428,290
Total Investment Return	608,895	(6,320)	602,575
Appropriation of expenditure	(342,897)		(342,897)
Endowment Net Assets at June 30, 2020	\$ 2,498,153	\$ 9,073,850	\$ 11,572,003

Note 14—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 \$15,768 and \$9,605 to the plan during the years ended June 30, 2020 and 2019, respectively.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 15—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 nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. The National Museum is currently evaluating the impact that the adoption of ASU No. 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, 2019. 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.

Note 16—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Since then, business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The National Museum is continuing to conduct its activities primarily on a remote basis, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the National Museum, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 17—Subsequent Events

On October 5, 2020, the Ford Foundation notified the National Museum of a four-year unrestricted grant of \$5,500,000 and designated the National Museum as one of “America’s Cultural Treasures” as part of its “America’s Cultural Treasures” initiative. The first installment is scheduled for December 30, 2020. This is a one-time national initiative designed to challenge conventional concepts of what constitutes our country’s “cultural treasures,” draw attention to the array of outstanding arts institutions based in the cultural traditions of communities of color, and provide significant support to a cohort of exemplary cultural institutions grappling with the impacts of the COVID-19 pandemic and the legacy of inequity in cultural philanthropy. This program is seeded with funds from the Ford Foundation, supplemented by generous contributions from the Abrams Foundation, Bloomberg Philanthropies, Tom and Lisa Blumenthal, Barbara and Amos Hostetter and the Alice L. Walton Foundation. It is the funders’ hope that this program will significantly bolster the future prospects of the recipient organizations and enable them to attract a broader array of sustained support.

Management evaluated all activities of Japanese American National Museum through October 23, 2020, 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.