

Audited Financial Statements



JAPANESE AMERICAN NATIONAL MUSEUM

June 30, 2021 and 2020

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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, 2021 and 2020, 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

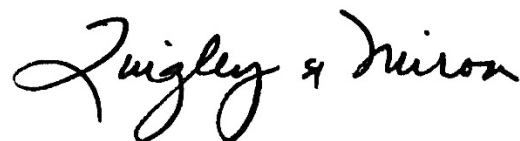
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2021 and 2020, 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.



Japanese American National Museum
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 18,073,883	\$ 770,861
Restricted cash: gift annuities	34,087	45,596
Restricted cash: PPP advance	577,762	580,062
Inventories, net	276,125	265,558
Pledges and grants receivable, net—Note 3	4,227,991	4,118,821
Investments—Note 4	14,315,484	12,261,175
Land held for investment	36,000	36,000
Beneficial interest in split-interest arrangements—Note 5	1,799,695	1,788,510
Building and land lease—Note 7	7,640,429	7,724,717
Historic Building—Note 7	4,073,158	4,354,980
Other assets	77,364	195,770
Property and equipment, net—Note 8	18,056,020	18,560,289
Artifact collection—Note 1		
Total Assets	<u>\$ 69,187,998</u>	<u>\$ 50,702,339</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 857,172	\$ 779,977
Term loan and bonds payable—Note 9	1,291,667	2,375,000
PPP advance—Note 10	577,762	580,062
EIDL loan—Note 10	149,422	150,000
Other liabilities	10,698	11,698
Gift annuities and planned giving liabilities	224,034	230,632
Total Liabilities	<u>3,110,755</u>	<u>4,127,369</u>
Net Assets		
Without donor restrictions		
Undesignated	33,889,204	15,798,342
Board designated—Note 11	1,161,932	926,964
Total Net Assets Without Donor Restrictions	<u>35,051,136</u>	<u>16,725,306</u>
With donor restrictions		
Purpose-restricted—Note 12	333,257	723,578
Time-restricted—Note 12	17,301,506	17,554,083
Subject to appropriation—Notes 12 and 13	4,317,494	2,498,153
Held in perpetuity—Notes 12 and 13	9,073,850	9,073,850
Total Net Assets With Donor Restrictions	<u>31,026,107</u>	<u>29,849,664</u>
Total Net Assets	<u>66,077,243</u>	<u>46,574,970</u>
Total Liabilities and Net Assets	<u>\$ 69,187,998</u>	<u>\$ 50,702,339</u>

See notes to financial statements.

Japanese American National Museum
Statement of Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Support			
Contributions and grant income	\$ 20,496,928	\$ 2,215,299	\$ 22,712,227
Contribution of use of Historic Building and land	797,201		797,201
Membership fees	685,648		685,648
Special events			
Gross revenue	917,125		917,125
Less cost of direct benefits to donors	(159,789)		(159,789)
Special Events, Net	757,336		757,336
Revenue			
Admissions	8,234		8,234
Museum store, net of cost of goods sold of \$193,502	196,916		196,916
Dividend and interest income	13,422	225,414	238,836
Rental income	142,441		142,441
Contract services	39,877		39,877
Other revenue	188,282		188,282
Total Support and Revenue Before Reclassifications	23,326,285	2,440,713	25,766,998
Reclassifications			
Net assets released from restrictions	3,554,735	(3,554,735)	
Total Support and Revenue After Reclassifications	26,881,020	(1,114,022)	25,766,998
Expenses			
Program services	6,200,109		6,200,109
Management and general	1,566,184		1,566,184
Fundraising and development	781,344		781,344
Total Expenses	8,547,637		8,547,637
Change in Net Assets from Operating Activities	18,333,383	(1,114,022)	17,219,361
Nonoperating Activities			
Valuation of beneficial interest in split-interest arrangements	(231,729)	166,538	(65,191)
Investment return, net	224,176	2,123,927	2,348,103
Change in Net Assets from Nonoperating Activities	(7,553)	2,290,465	2,282,912
Change in Net Assets	18,325,830	1,176,443	19,502,273
Net Assets at Beginning of Year	16,725,306	29,849,664	46,574,970
Net Assets at End of Year	\$ 35,051,136	\$ 31,026,107	\$ 66,077,243

See notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
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 Operating Activities	(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
Change in Net Assets from 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 Functional Expenses
Year Ended June 30, 2021

	Program Services					Total Program Services	Management and General	Fundraising and Development	Special Events	Total
	Membership	Exhibits	Education	Marketing	Store					
Expenses										
Salaries	\$ 96,524	\$ 780,068	\$ 461,148	\$ 182,314	\$ 190,809	\$ 1,710,863	\$ 701,746	\$ 454,593	\$	\$ 2,867,202
Payroll taxes	7,314	58,588	33,985	13,890	14,439	128,216	50,125	32,983		211,324
Other employee benefits	17,308	131,686	80,472	22,363	24,784	276,613	135,970	53,050		465,633
Total Personnel Expenses	121,146	970,342	575,605	218,567	230,032	2,115,692	887,841	540,626		3,544,159
Facility and parking rental	5,092	841,397	303,432	14,718	48,861	1,213,500	51,857	30,981		1,296,338
Contracted services	18,009	786,282	194,959	12,133	58,817	1,070,200	40,387	41,645		1,152,232
Depreciation	3,260	546,855	206,846	9,780	33,001	799,742	34,681	20,541		854,964
Professional fees	3,383	139,791	28,918	10,486	12,891	195,469	310,118	66,419		572,006
Utilities	1,308	225,692	85,289	3,990	13,555	329,834	14,186	8,371		352,391
Cost of goods sold, museum store					193,502	193,502				193,502
Supplies, materials, and equipment	3,081	88,258	25,286	9,103	12,862	138,590	12,097	21,771		172,458
Cost of direct benefits to donors									159,789	159,789
Insurance	3,149	24,572	14,401	4,174	6,568	52,864	90,543	9,438		152,845
Interest	4,020	27,139	18,383	5,328	8,384	63,254	44,823	12,047		120,124
Telephone	622	73,964	28,358	1,550	4,780	109,274	5,310	3,296		117,880
Bank and merchant fees	8,367	3,843	64	3	17,210	29,487	42,851	9,661		81,999
Postage and delivery	88	16,922	4,597	236		21,843	820	11,863		34,526
Taxes, licenses, permits, and fees	12	2,214	743	485	153	3,607	25,970	704		30,281
Other expenses	119	23,177	545	199	847	24,887	3,190	1,778		29,855
Advertising		17,674	207	6,787	50	24,718				24,718
Travel, meetings, and memberships	406	3,106	1,822	540	1,274	7,148	1,510	2,203		10,861
Total Expenses by Function	172,062	3,791,228	1,489,455	298,079	642,787	6,393,611	1,566,184	781,344	159,789	8,900,928
Less expenses included with revenues on the statement of activities:										
Cost of goods sold, museum store					(193,502)	(193,502)				(193,502)
Cost of direct benefits to donors									(159,789)	(159,789)
Total Expenses	\$ 172,062	\$ 3,791,228	\$ 1,489,455	\$ 298,079	\$ 449,285	\$ 6,200,109	\$ 1,566,184	\$ 781,344	\$	\$ 8,547,637

See notes to financial statements.

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

Expenses	Program Services					Total Program Services	Management and General	Fundraising and Development	Special Events	Total
	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
Contracted services	3,683	398,414	179,548	5,281	21,607	608,533	137,182	45,717		791,432
Depreciation	30,815	441,402	298,614	14,119	47,642	832,592	50,067	33,956		916,615
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
Cost of goods sold, museum store					166,257	166,257				166,257
Supplies, materials, and equipment	237	78,996	34,482	737	17,693	132,145	29,940	4,899		166,984
Cost of direct benefits to donors									178,525	178,525
Insurance	188	31,354	11,925	564	1,902	45,933	62,302	1,606		109,841
Interest	3,893	99,195	37,726	1,784	6,019	148,617	6,325	4,290		159,232
Telephone	396	65,989	25,097	1,187	4,004	96,673	15,921	3,354		115,948
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
Taxes, licenses, permits, and fees	2	255	97	5	290	649	236,969	313		237,931
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
Travel, meetings, and memberships	250	45,690	39,581	41	2,058	87,620	39,437	9,682		136,739
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 goods sold, museum store					(166,257)	(166,257)				(166,257)
Cost of direct benefits to donors									(178,525)	(178,525)
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
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operations		
Change in net assets	\$ 19,502,273	\$ 636,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	854,964	916,615
Net realized and unrealized gain on investment	(2,348,103)	(463,845)
Valuation of beneficial interest in split-interest arrangements	(11,185)	321,248
Changes in operating assets and liabilities:		
Increase in inventories, net	(10,567)	(82)
Increase in pledges and grants receivable, net	(109,170)	(1,299,938)
Decrease in leased Historic Building and land lease	366,110	343,768
Decrease in other assets	118,406	21,598
Increase (decrease) in accounts payable and accrued expenses	77,195	(96,471)
Increase (decrease) in other liabilities	(1,000)	4,000
Increase (decrease) in PPP advance	(2,300)	580,062
Increase (decrease) in gift annuities and planned giving liabilities	(6,598)	26,430
Cash Provided by Operating Activities	18,430,025	989,511
Cash Flows from Investing Activities		
Purchases of property and equipment	(350,695)	(246,294)
Purchases of investments in securities	(911,206)	(185,327)
Proceeds from sales of investments in securities	1,205,000	200,000
Cash Used in Investing Activities	(56,901)	(231,621)
Cash Flows from Financing Activities		
Proceeds from term loan payable	2,375,000	
Principal payments on term loan payable	(1,083,333)	
Proceeds from EIDL note		150,000
Principal payments on EIDL loan	(578)	
Payment of bond principal	(2,375,000)	
Cash Provided by (Used in) Financing Activities	(1,083,911)	150,000
Net Increase in Cash, Cash Equivalents, and Restricted Cash	17,289,213	907,890
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	1,396,519	488,629
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 18,685,732	\$ 1,396,519
Supplementary Disclosures		
Income taxes paid	\$	\$
Interest paid	\$ 120,124	\$ 159,232

See notes to financial statements.

Japanese American National Museum
Notes to Financial Statements
June 30, 2021 and 2020

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, FASB issued 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.

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. The National Museum has adopted ASU No. 2014-09 for the year ended June 30, 2021, 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 noted that there was no material effect on the financial statements.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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 exhibit and store management, educational programs, community and institutional collaborations and outreach, and interest and dividends earned on investments. 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, 2021 and 2020. 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, Cash Equivalents, and Restricted Cash—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 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, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 18,073,883	\$ 770,861
Restricted cash: gift annuities	34,087	45,596
Restricted cash: PPP advance	577,762	580,062
Totals	<u>\$ 18,685,732</u>	<u>\$ 1,396,519</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, 2021 and 2020, respectively.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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.

In October 2020, the Ford Foundation awarded 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. 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.

In June 2021, the National Museum announced the receipt of a transformative unrestricted \$10,000,000 gift from philanthropist Mackenzie Scott, the largest single gift in the National Museum’s history. The gift was one of 286 that Ms. Scott made to a wide range of organizations including arts and cultural groups, higher education institutions and social justice nonprofits, and was made in recognition of the National Museum’s leadership and its success in advancing civil rights and social justice in recent years

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, 2021 and 2020.

Fair Value of Financial Instruments—The fair value of the National Museum's financial instruments as of June 30, 2021 and 2020 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 6 to the financial statements.

Japanese American National Museum
Notes to Financial Statements—Continued

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

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 \$224,034 and \$230,632 at June 30, 2021 and 2020, 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, 2021 and 2020.

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 and Loan Issuance Costs—Bond and loan discount and issuance costs are amortized as additional interest expense based on the terms of the bond or loan using the straight-line method, which approximates the effective interest method. Capitalized bond and loan issuance costs at June 30, 2021 and 2020 amounted to \$12,765 and \$28,390, respectively, and are included in the other assets caption on the statement of financial position.

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.

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

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, 2021 and 2020, these in-kind contributions amounted to over 2,400 and 15,000 volunteer hours valued at approximately \$48,000 and \$300,000, 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 2020 have been reclassified to conform with the 2021 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.

The following represents the availability and liquidity of the National Museum's financial assets at June 30, 2021 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 17,740,626
Pledges and grants receivable, net	<u>2,827,515</u>
Current Availability of Financial Assets	<u>\$ 20,568,141</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity—Continued

Additionally, the National Museum established a board-designated reserve totaling \$1,161,932 at June 30, 2021 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Due within 1 year	\$ 2,827,515	\$ 1,871,000
Due within 2 or more years	1,470,690	2,365,690
	Gross 4,298,205	4,236,690
Less present value discount	(70,214)	(117,869)
	Net \$ 4,227,991	\$ 4,118,821

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, 2021 and 2020.

Note 4—Investments

Investments consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fixed income funds	\$ 1,762,061	\$ 2,566,967
Domestic equity funds	11,161,410	8,773,150
International equity fund	1,392,013	921,058
	Totals \$ 14,315,484	\$ 12,261,175

Return on investments for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Realized gain on investments	\$ 178,563	\$ 48,346
Unrealized gain on investments	2,169,540	415,499
	Investment Return, Net 2,348,103	463,845
Investment interest and dividends	236,225	185,328
	Total Return on Investments \$ 2,584,328	\$ 649,173

Japanese American National Museum
Notes to Financial Statements—Continued

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, 2019	\$ 656,428	\$ 1,453,330	\$ 2,109,758
Amortization of discount, payments to income beneficiaries, and income	<u>(11,239)</u>	<u>(310,009)</u>	<u>(321,248)</u>
Beneficial Interest in Split-Interest Arrangements at June 30, 2020	645,189	1,143,321	1,788,510
Contributions		65,814	65,814
Termination of agreements		(173,753)	(173,753)
Amortization of discount, payments to income beneficiaries, and income	<u>68,098</u>	<u>51,026</u>	<u>119,124</u>
Beneficial Interest in Split-Interest Arrangements at June 30, 2021	<u>\$ 713,287</u>	<u>\$ 1,086,408</u>	<u>\$ 1,799,695</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, 2021 and 2020. Included with charitable remainder trusts is real property. Real property market value was \$180,000 at June 30, 2021 and 2020. 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.

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.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 6—Fair Value—Continued

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, 2021 and 2020. Assets and liabilities measured at fair value on a recurring basis at June 30, 2021 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments	\$ 14,315,484	\$	\$	\$ 14,315,484
Split-interest arrangements			1,799,695	1,799,695
Planned giving liabilities			(187,211)	(187,211)
Gift annuities—assets	34,087			34,087
Gift annuities—liabilities			(36,823)	(36,823)
Totals	<u>\$ 14,349,571</u>	<u>\$</u>	<u>\$ 1,575,661</u>	<u>\$ 15,925,232</u>

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			(179,178)	(179,178)
Gift annuities—assets	45,596			45,596
Gift annuities—liabilities			(51,454)	(51,454)
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

A reconciliation of the National Museum’s Level 3 assets and liabilities at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 1,557,878	\$ 1,905,556
Change in value of split-interest arrangements	17,783	(347,678)
Ending Balance	<u>\$ 1,575,661</u>	<u>\$ 1,557,878</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 \$7,640,429 and \$7,724,717 as of June 30, 2021 and 2020, 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 \$4,073,158 and \$4,354,980 as of June 30, 2021 and 2020, 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Museum building	\$ 30,118,137	\$ 30,118,137
Furniture, fixtures, and equipment	3,763,246	3,679,559
Exhibition and media development costs	2,000,882	1,911,515
Historic Building improvements	1,624,219	1,624,219
Museum building improvements	487,960	310,319
	<u>37,994,444</u>	<u>37,643,749</u>
Less accumulated depreciation	(19,938,424)	(19,083,460)
Property and Equipment, Net	<u>\$ 18,056,020</u>	<u>\$ 18,560,289</u>

Total depreciation expense recorded for the years ended June 30, 2021 and 2020 was \$854,964 and \$916,615, respectively.

Note 9—Term Loan and Bonds Payable

Term loan and bonds payable as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Bank loan, original principal of \$2,375,000, maturing August 5, 2030, payable in monthly principal installments of \$20,833, plus interest at 4.0% per annum. Secured by substantially all the assets of The National Museum. The National Museum was in compliance with required financial covenants.	\$ 1,291,667	\$
California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2000A, 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.		<u>2,375,000</u>
Totals	<u>\$ 1,291,667</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 had a variable interest rate which was reset weekly. The effective rate was prime plus 1% or 4.25% at June 30, 2020.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 9—Term Loan and Bonds Payable—Continued

On January 1, 2021, the National Museum refinanced the bonds by obtaining a term loan through a bank totaling \$2,375,000. The term loan matures on August 5, 2030, and is payable in monthly principal installments of \$20,833, plus interest at 4.0% per annum.

The aggregate future maturities of the term loan is as follows:

For the Year Ending June 30,

2022	\$	250,000
2023		250,000
2024		250,000
2025		250,000
2026		250,000
Thereafter		<u>41,667</u>
Total	\$	<u>1,291,667</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) to keep their workers on the payroll. As of June 30, 2021, the National Museum recognized a total of \$580,062 in PPP grant revenue during the year ended June 30, 2021 based on qualifying expenditures incurred, with no outstanding balance at year-end. PPP grant revenue is reported in the statement of activities under contributions and grant income.

On March 17, 2021, the National Museum received a \$577,762 PPP advance through the SBA. This amount has been recorded as a liability in the statement of financial position at June 30, 2021, pending submission of qualifying expenditures and formal forgiveness by the SBA. It is the opinion of management that all funds received will be forgiven under the present terms of the PPP.

On May 20, 2020, the National Museum received a \$150,000 30-year SBA Economic Injury Disaster Loan (loan). The loan bears interest at a fixed rate of 2.75% per annum and requires fully amortizing monthly payments of principal and interest of \$641, beginning twelve months from the date of funding.

Note 11—Board Designated Operating Reserve

Board-designated net assets are voluntary board-approved segregations of net assets without donor restrictions for specific purposes, projects or investments in infrastructure. The National Museum withdrew \$0 and \$200,000 from the investment accounts comprising the board-designated net assets during the years ended June 30, 2021 and 2020. The board-designated operating reserve amounted to \$1,161,932 and \$926,964 at June 30, 2021 and 2020, respectively.

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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Technical assistance	\$ 100,000	\$
Tateuchi Democracy Forum	94,363	100,000
New core exhibits	41,135	350,000
Bid for Education	33,600	100,000
Summer intern	19,500	19,500
Volunteer program	17,982	30,000
Project Nancy	12,295	11,295
Other	8,000	10,000
Bible Sutra	6,382	39,563
School District Partner		38,515
County of LA family program		12,775
County of LA public program		11,930
Total Subject to Purpose Restrictions	333,257	723,578
Subject to time restrictions:		
Building and land lease	7,640,429	7,724,717
Historic building	4,073,158	4,354,980
General operations	3,237,919	3,824,386
LA Arts recovery fund	1,500,000	
New core exhibits	650,000	950,000
Tateuchi Democracy Forum	200,000	200,000
Comprehensive Campaign		500,000
Total Subject to Time Restrictions	17,301,506	17,554,083
Subject to the National Museum's endowment spending policy and appropriation:		
Artistic Program	1,825,071	1,086,591
General operations	1,056,065	499,948
Humanities	880,469	564,597
Nikkei-Legacy Program	555,889	347,017
Total Subject to Appropriation	4,317,494	2,498,153
Held in perpetuity:		
Nikkei-Legacy Program	3,000,000	3,000,000
Artistic Program	2,819,200	2,819,200
General operations	2,254,650	2,254,650
Humanities	1,000,000	1,000,000
Total Held in Perpetuity	9,073,850	9,073,850
Total Net Assets With Donor Restrictions	\$ 31,026,107	\$ 29,849,664

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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
New core exhibits	\$ 358,867	\$
Discover Nikkei	150,000	
Bid for Education	125,000	100,000
HVAC system	100,000	
Other	82,000	22,000
County of LA public program	78,030	845
School district partner	38,515	16,485
Volunteer program	37,018	6,395
Bible Sutra	33,181	437
Summer intern	19,500	12,400
County of LA family program	12,775	
Tateuchi Democracy Forum	5,637	
Hiroshima Mushroom Cloud	2,000	
Nikkei legacy project	1,000	
Transcendents		354,713
Freeman Asian Arts & Cultural Education		100,000
Hapa: a Future Perspective		35,000
HNRC		26,000
Satisfaction of passage of time:		
Comprehensive Campaign	500,000	800,000
New core exhibits	300,000	
General operations	815,103	798,192
Historic building	281,821	264,373
Tateuchi Democracy Forum		100,000
Building and land lease	84,288	79,395
DSYF		55,000
Subject to the National Museum's endowment spending policy and appropriation:		
Artistic Program	324,249	157,235
General operations	131,219	118,407
Humanities	74,532	67,255
Total Net Assets Released from Donor Restrictions	<u>\$ 3,554,735</u>	<u>\$ 3,114,132</u>

Japanese American National Museum
Notes to Financial Statements—Continued

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 three 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, 2021 and 2020, 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.

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.

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Endowment Net Assets—Continued

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. 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 return over a full market cycle (typically three to five years) above that of the target allocation if invested in the appropriate benchmarks as determined by the Investment Committee of the Board. 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.

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.

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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Nikkei Legacy program	\$ 3,000,000	\$ 3,000,000
Artistic programs	2,819,199	2,819,199
General operating purposes	2,254,651	2,254,651
Humanities programs	1,000,000	1,000,000
Totals	<u>\$ 9,073,850</u>	<u>\$ 9,073,850</u>

Japanese American National Museum
Notes to Financial Statements—Continued

Note 13—Endowment Net Assets—Continued

Change in endowment net assets for the years ended June 30, 2021 and 2020 is as follows:

	<u>Subject to Appropriation</u>	<u>Held In Perpetuity</u>	<u>Total</u>
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
Contributions			
Appropriation of expenditure	(342,897)		(342,897)
Endowment Net Assets at June 30, 2020	2,498,153	9,073,850	11,572,003
Investment income	225,414		225,414
Change in value of split-interest agreements			
Realized and unrealized gain on investments, net	2,123,927		2,123,927
Total Investment Return	2,349,341		2,349,341
Appropriation of expenditure	(530,000)		(530,000)
Endowment Net Assets at June 30, 2021	\$ 4,317,494	\$ 9,073,850	\$ 13,391,344

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 \$19,062 and \$15,768 to the plan during the years ended June 30, 2021 and 2020, 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.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The National Museum is currently evaluating the impact that the adoption of ASU 2020-07 will have 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 open for visitors and some in-person programs but continues to monitor the ongoing impact of the pandemic. 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
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Note 17—Subsequent Events

Management evaluated all activities of Japanese American National Museum through October 15, 2021, which is the date the financial statements were available to be issued, and concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.