



# **Mingei International, Inc.**

**Financial Statements**  
Year Ended June 30, 2020



# Mingei International, Inc.

## Contents

---

<b>Independent Auditors' Report</b>	3-4
<b>Financial Statements</b>	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-21
<b>Supplemental Schedules</b>	
Shop Mingei Revenues and Expenses	22
Café Mingei Revenues and Expenses	23
Schedule of Budgeted and Actual Expenditures of City of San Diego TOT Funds	24



**Mayer Hoffman McCann P.C.**  
13500 Evening Creek Drive N. ■ Suite 450 ■ San Diego, CA 92128  
Main: 858.795.2000 ■ Fax: 858.795.2001 ■ [www.mhmcpa.com](http://www.mhmcpa.com)

## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee of  
**Mingei International, Inc.**  
San Diego, CA

We have audited the accompanying financial statements of the **Mingei International, Inc.** (the "Museum"), which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses and cash flows for the year 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 the Museum as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

### **Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules which are comprised of Shop Mingei Revenues and Expenses, Café Mingei Revenues and Expenses, and the Schedule of Budgeted and Actual Expenditures of City of San Diego TOT Funds are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Mayer Hoffman McCann P.C.*

San Diego, California

December 29, 2020

# Mingei International, Inc.

## Statement of Financial Position Year Ended June 30, 2020

### Assets

#### Current Assets:

Cash and cash equivalents	\$	11,686,739
Pledges receivable, net		1,605,150
Grants and other receivables, net		120,000
Prepaid and other assets		59,002
Inventories		53,009
<b>Total current assets</b>		<b>13,523,900</b>

#### Other Assets:

Investments		15,717,328
Pledges receivable - noncurrent, net		2,426,060
Fixed assets, net		21,080,874
<b>Total Assets</b>	<b>\$</b>	<b>52,748,162</b>

### Liabilities and Net Assets

#### Current Liabilities:

Accounts payable	\$	2,244,950
Accrued expenses		685,477
<b>Total current liabilities</b>		<b>2,930,427</b>

#### Net Assets:

##### Without donor restrictions:

Board designated endowments		4,551,178
Undesignated		21,091,473
<b>Total net assets without donor restrictions</b>		<b>25,642,651</b>

##### With donor restrictions:

Purpose restricted		16,032,433
Perpetual in nature		8,142,651
<b>Total net assets with donor restrictions</b>		<b>24,175,084</b>
<b>Total net assets</b>		<b>49,817,735</b>
<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b>52,748,162</b>

*The accompanying notes are an integral part of this financial statement.*

# Mingei International, Inc.

## Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenues, net:</b>			
Contributions	\$ 685,901	\$ 15,245,487	\$ 15,931,388
Government grants	713,904	-	713,904
Investment income, gains	303,345	320,513	623,858
Memberships	170,112	-	170,112
Special events & fundraising	88,020	-	88,020
Café Mingei	86,723	-	86,723
Permanent collection contributions	74,873	-	74,873
Shop Mingei	67,430	-	67,430
Other income (expense)	(11,182)	-	(11,182)
Admissions	(289)	-	(289)
Net assets released	17,161,931	(17,161,931)	-
<b>Total Support and Revenues, net</b>	<b>19,340,768</b>	<b>(1,595,931)</b>	<b>17,744,837</b>
<b>Expenses:</b>			
<i>Program services:</i>			
Exhibitions	552,890	-	552,890
Registration/Collections	401,475	-	401,475
Education	253,091	-	253,091
Library	127,376	-	127,376
<b>Total program expenses</b>	<b>1,334,832</b>	<b>-</b>	<b>1,334,832</b>
<i>Development:</i>			
Marketing and Public Relations	469,375	-	469,375
Memberships	136,349	-	136,349
Special Events & Fundraising	512,200	-	512,200
<b>Total development expenses</b>	<b>1,117,924</b>	<b>-</b>	<b>1,117,924</b>
<i>Shop Mingei</i>	116,250	-	116,250
<i>Café Mingei</i>	242,828	-	242,828
<i>Management and General</i>	839,844	-	839,844
<b>Total Expenses</b>	<b>3,651,678</b>	<b>-</b>	<b>3,651,678</b>
<b>Change in Net Assets</b>	<b>15,689,090</b>	<b>(1,595,931)</b>	<b>14,093,159</b>
<b>Net Assets - Beginning of Year</b>	<b>9,953,561</b>	<b>25,771,015</b>	<b>35,724,576</b>
<b>Net Assets - End of Year</b>	<b>\$ 25,642,651</b>	<b>\$ 24,175,084</b>	<b>\$ 49,817,735</b>

The accompanying notes are an integral part of this financial statement.

Mingei International, Inc.

Statement of Functional Expenses  
Year Ended June 30, 2020

	Exhibitions	Registration / Collections	Education	Library	Total Program Services	Marketing and Public Relations	Membership	Special Events & Fundraising	Management and General	Shop Mingei	Café Mingei	Total Expenses
<b>Expenses:</b>												
Salaries and benefits	\$ 403,358	\$ 208,292	\$ 184,528	\$ 107,379	\$ 903,557	\$ 299,771	\$ 39,765	\$ 444,412	\$ 319,034	\$ 31,885	\$ 151,900	\$ 2,190,324
Facility expense	22,026	94,126	3,210	924	120,286	1,939	2,751	4,289	133,916	30,875	16,883	310,939
Professional services	39,048	61,217	19,962	4,893	125,120	39,443	6,104	17,198	112,541	5,277	3,334	309,017
Insurance	5,469	13,658	2,239	1,098	22,464	3,458	318	4,384	170,189	860	2,183	203,856
Computer equipment	17,074	12,665	5,149	5,563	40,451	31,425	8,488	13,234	4,746	3,164	2,184	103,692
Cost of goods sold	-	-	-	-	-	-	-	-	-	34,952	47,015	81,967
Printing and signage	1,907	-	-	-	1,907	43,142	-	-	30,063	-	-	75,112
Office expenses	1,916	1,167	29,482	2,289	34,854	2,918	17,659	12,265	1,007	1,324	3,135	73,162
Advertising and promotion	22,688	65	1,368	1,608	25,729	33,391	765	1,207	6,738	87	35	67,952
Travel and business expense	2,220	-	3,476	-	5,696	175	52,138	90	3,955	-	996	63,050
Depreciation expense	28,725	6,494	410	2,080	37,709	1,431	277	1,043	2,219	3,587	4,451	50,717
Telephone and data	1,717	1,855	928	464	4,964	1,237	499	1,546	21,543	1,034	849	31,672
Membership and dues	300	672	163	1,058	2,193	9,025	845	-	13,732	175	-	25,970
Permits and licenses	369	-	-	-	369	-	1,590	-	15,177	54	621	17,811
Bank expense	-	-	296	-	296	-	3,464	5,193	39	2,803	5,040	16,835
Other expenses	6,034	-	71	20	6,125	-	5	5,670	-	-	388	12,188
Postage and freight	14	1,264	1,694	-	2,972	2,020	1,681	1,669	983	148	-	9,473
Wastage/shrinkage	-	-	-	-	-	-	-	-	-	-	3,814	3,814
Professional development	25	-	115	-	140	-	-	-	3,362	25	-	3,527
Equipment rental	-	-	-	-	-	-	-	-	600	-	-	600
<b>Total expenses</b>	<b>\$ 552,890</b>	<b>\$ 401,475</b>	<b>\$ 253,091</b>	<b>\$ 127,376</b>	<b>\$ 1,334,832</b>	<b>\$ 469,375</b>	<b>\$ 136,349</b>	<b>\$ 512,200</b>	<b>\$ 839,844</b>	<b>\$ 116,250</b>	<b>\$ 242,828</b>	<b>\$ 3,651,678</b>

The accompanying notes are an integral part of this financial statement.

# Mingei International, Inc.

## Statement of Cash Flows Year Ended June 30, 2020

---

### Cash Flows From Operating Activities:

Change in net assets	\$	14,093,159
Adjustments to reconcile change in net assets to Net cash from operating activities:		
Depreciation		50,717
Change in fair value of investments		(450,958)
Change in operating assets and liabilities:		
Receivables		(2,021,729)
Inventories		23,322
Prepaid and other assets		(32,192)
Accounts payable and accrued expenses		(320,176)
<b>Net cash from operating activities</b>		<b>11,342,143</b>

### Cash Flows From Investing Activities:

Proceeds from securities trading		1,822,180
Purchase of fixed assets		(13,413,525)
Purchase of securities		(1,235,760)
<b>Net cash from investing activities</b>		<b>(12,827,105)</b>

<b>Net Change in Cash and Cash Equivalents</b>		<b>(1,484,962)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>		<b>13,171,701</b>
<b>Cash and Cash Equivalents - End of Year</b>	\$	<b>11,686,739</b>

### Non-Cash Investing and Financing Activities

In fiscal year 2020, Mingei acquired approximately \$2,170,000 of property and equipment additions that are included in accounts payable.

---

*The accompanying notes are an integral part of this financial statement.*

### (1) Nature of Organization and Significant Accounting Policies

#### *Nature of the organization*

Mingei International, Inc. (the “Museum”) is a not-for-profit corporation organized under the laws of the State of California for the purpose of furthering the understanding of arts of people from all cultures of the world. The Museum operates a museum located in San Diego’s Balboa Park.

#### *Method of accounting*

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

#### *Financial statement presentation*

The Museum is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

#### *Functional allocation of expenses*

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated based on estimates of time and effort.

#### *Contributions*

Contributions received are recorded as without donor restrictions, or with donor restrictions depending on the nature of restriction.

The Museum reports gifts of cash and other assets as net assets with donor restrictions if they are received with stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Museum uses the allowance method to determine uncollectible unconditional promises receivable (pledges and grants receivable). The allowance is based on prior years’ experience and management’s analysis of specific promises made. The Museum considered all pledges and grants receivable to be collectible as of June 30, 2020.

### *Grants*

City and County of San Diego grants and other grants are recognized as with donor restrictions or without donor restrictions, depending on the stipulations of the grant agreements. When a grant restriction expires, stipulated time restrictions end or purpose restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Grants whose restrictions are met in the same reporting period are reported as without donor restrictions.

### *Physical facilities*

The City of San Diego owns the building in Balboa Park occupied by the Museum. In September 2015, the City of San Diego agreed to extend this lease for an additional 25 years. The lease termination date was extended from May 27, 2021 to May 27, 2046. Other than the cost of the interior leasehold improvements and related repairs and maintenance, the agreement provides the Museum approximately 41,000 square feet of space at no cost. U.S. generally accepted accounting principles (“GAAP”) require the donated value of the building and land to be reflected on the Museum’s financial statements. However, no amounts have been reflected in the financial statements for such use of the building inasmuch as no objective basis is available to measure the value.

Beginning March 1, 2017, the Museum entered in a ten-year lease for a storage facility in Chula Vista that will expire on February 28, 2027. The agreement provides the Museum approximately 4,458 square feet of storage space. Rental payments for the facility during the fiscal year ended June 30, 2020 were approximately \$61,000.

### *Property, furniture and equipment*

Property, furniture and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Property, furniture and equipment are depreciated on the straight-line method using useful lives ranging from 5 to 40 years.

Long-lived assets held and used by the Museum are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

### *Assets held for sale and discontinued operations*

Individual long-lived assets to be disposed of by sale are classified as assets held for sale if the following criteria are met:

- The carrying amount will be recovered principally through a sale transaction rather than through continuing use;

# Mingei International, Inc.

## Notes to Financial Statements

---

### *Assets held for sale and discontinued operations, cont'd*

- The disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for such sales and;
- The sale is highly probable.

Assets held for sale are carried at the lower of their carrying amount or fair value less costs to sell and are presented separately. Assets held for sale are not depreciated.

If a group of assets to be disposed of represent a separate major line of business or geographical area of operations or are part of a coordinated plan to dispose of a separate line of business or geographical area of operations, they are classified as discontinued operations. The net results attributable to such discontinued operations are shown separately.

### *Cash and cash equivalents*

The Museum considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude restricted cash and cash equivalents.

### *Investments*

Investments consist of mutual funds and managed investment pools. Mutual funds and managed investment pools are carried at fair value. Realized gains or losses are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded as a component of donor restricted until those amounts are appropriated for expenditures by the Museum or without donor restrictions.

### *Designated cash*

Designated cash primarily represents cash set aside by the Board of Trustees (the “Board”) for the specific purpose of funding the Board’s Designated Endowment Fund. The Board retains control and may at its discretion subsequently use these funds for other purposes.

### *Inventories*

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

### *Collection*

The permanent collection of the Museum consists of paintings, sculpture, installations, works on paper (including photography), video and other media. The cornerstone of any museum is its collection. Acquisition and preservation of objects are the primary responsibilities of the Board

# Mingei International, Inc.

## Notes to Financial Statements

---

### *Collection, cont'd*

of Trustees, the executive director and the curatorial staff. The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

### *Use of estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Income taxes*

The Museum, a California not-for-profit corporation, is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, income from the Museum's café is not directly related to the Museum's tax-exempt purpose and is subject to taxation as unrelated business income.

At June 30, 2020, the federal statute of limitation remains open for the 2017 through 2020 tax years. The statute of limitations for the state income tax returns remains open for the 2016 through 2020 tax years.

### *Donated goods and services*

Donated goods and services are recognized as contributions if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. No services were contributed for the year ended June 30, 2020. Volunteers also provided a variety of tasks throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

## **(2) Liquidity and Availability of Financial Assets**

The Museum strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

# Mingei International, Inc.

## Notes to Financial Statements

### (2) Liquidity and Availability of Financial Assets, Cont'd

The following table reflects the Museum's financial assets as of June 30, 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal Board designations. Amounts not available include certain donor restricted investments as more fully described in note 8.

Financial assets at year-end:	
Cash and cash equivalents	\$ 11,686,739
Pledges, grants and other receivables due within one year	1,725,150
Investments	15,717,328
<hr/>	
Total financial assets at year-end	29,129,217
Less amounts not available to be used within one year due to:	
Board designated endowments	4,551,178
Perpetual restrictions	8,142,651
Restricted by donor with purpose	16,032,433
Less the endowment funds to be appropriated in 2021	(622,776)
<hr/>	
	28,103,486
<hr/>	
Financial assets available for general expenditures within one year	\$ 1,025,731

### (3) Pledges Receivable

Pledges receivable represent an unconditional promise to receive cash or some other type of asset. These pledge arrangements are discounted for the present value of estimated future cash flows using a discount rate of 0.38%. The pledges receivable is composed of the following:

	June 30, 2020
<hr/>	
Pledges receivable, due in less than one year	\$ 1,605,150
Pledges receivable, due in two to five years	2,421,193
Pledges receivable, due in greater than five years	30,000
<hr/>	
	4,056,343
Less: net present value discount for pledges due in more than one year	(25,133)
<hr/>	
Total pledges receivables	\$ 4,031,210

Based on its history of collections and an assessment of existing receivables, management believes that no allowance for doubtful pledges is necessary at June 30, 2020.

# Mingei International, Inc.

## Notes to Financial Statements

### (4) Inventories

Inventories consist of the following:

	June 30, 2020
Collectors' Gallery	\$ 49,189
Purchased publications	3,820
<b>Total inventories</b>	<b>\$ 53,009</b>

### (5) Investments

Investments consist of the following:

	June 30, 2020
	Fair Value
Mutual funds	\$ 15,158,239
Managed investment pools	559,089
<b>Total investments carried at fair value</b>	<b>\$ 15,717,328</b>

Investment return is summarized as follows:

	June 30, 2020
Interest and dividends	\$ 550,599
Realized losses	(51,748)
Unrealized gains	125,007
<b>Total investment income (loss)</b>	<b>\$ 623,858</b>

The Museum measures fair value at the price that would be received upon sale of an asset, or, paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

# Mingei International, Inc.

## Notes to Financial Statements

### (5) Investments, Cont'd

The Museum endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of the financial instruments in accordance with the guidance's pricing levels as of:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Domestic equities	\$ 7,582,755	\$ -	\$ -	\$ 7,582,755
Foreign equities	2,098,353	-	-	2,098,353
Short term bonds	5,477,131	-	-	5,477,131
Managed investment pools	-	-	559,089	559,089
Total investments carried at fair value	\$ 15,158,239	\$ -	\$ 559,089	\$ 15,717,328

Investments in marketable equity securities and mutual funds are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets.

The Museum did not have any Level 2 investments.

Investments in management investment pools are valued based on the net asset value of each investment position, as provided by the respective pool managers. The Museum has designated these investments as Level 3 instruments since independent market quotes are not available.

Changes in Level 3 financial instruments, as included in unrealized gains (losses) in the statement of activities, are follows for the year ended:

	June 30, 2020
Managed investment pools, beginning of year	\$ 552,047
Net unrealized gains	7,042
Managed investment pools, end of year	\$ 559,089

### (6) Fixed Assets

Fixed assets are summarized as follows:

	June 30, 2020
Furniture and equipment	\$ 522,744
Leasehold improvements	107,510
Less: Accumulated depreciation	(321,404)
Plus: Construction in process	20,772,024
Total Fixed assets	\$21,080,874

Depreciation expense for the year ended June 30, 2020 was approximately \$51,000.

### **(7) Debt**

In May 2020, the Museum entered into a \$13,000,000 construction loan agreement to finance facility renovations. The loan draw period is May 2020 through July 2021. The loan has a variable interest rate and matures in May 2023. The loan had not been drawn on at June 30, 2020.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The operations of the Museum have not been significantly impacted as the Museum has been closed for renovations.

The Museum received a Paycheck Protection Program (PPP) loan of \$363,600 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The Museum recognized the amount received as grant revenue as qualified expenses occurred / barriers to entitlement were met. Application for forgiveness of the loan will be made as soon as possible. However, at the time of issuance of the financial statements, notice of forgiveness had not been received from the lender. All documentation supporting program compliance has been made available for the financial statement audit. All indications are that the loan will be forgiven. However, if a portion of the loan must be repaid, the terms (1% per annum, repayable over a maximum of five years with a six-month deferral period) are such that the Museum has sufficient liquidity to repay the unforgiven portion.

### **(8) Endowment**

The Museum's endowment consists of six individual funds established for particular/specific purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of relevant law*

The Board of Trustees of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring 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. As a result of this interpretation, the Museum classifies as net assets with donor restrictions (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

### *Interpretation of relevant law, cont'd*

time the accumulation is added to the fund. The remaining portion of the endowment fund that is not held in perpetuity is also classified net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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 organization
- (7) The investment policies of the organization.

### *Funds with deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, there was no deficiency reported in restricted net assets with donor restrictions as of June 30, 2020.

### *Return objectives and risk parameters*

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match the price and yield results of the S&P 500 index for equities and the Barclay's aggregate index for fixed income, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

### *Strategies employed for achieving objectives*

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# Mingei International, Inc.

## Notes to Financial Statements

### *Spending policy and how the investment objectives relate to spending policy*

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

### *Endowment net asset composition by fund type*

The compositions of endowment net assets by type of fund are as follows:

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor – restricted endowment funds:			
Original donor-restricted amounts required to be maintained in perpetuity	\$ -	\$ 8,142,651	\$ 8,142,651
Accumulated gains on donor-restricted endowment funds	-	2,898,831	2,898,831
Board – designated endowment funds:	4,551,178	-	4,551,178
<b>Total funds</b>	<b>\$ 4,551,178</b>	<b>\$ 11,041,482</b>	<b>\$ 15,592,660</b>

### *Changes in endowment net assets*

Changes in endowment net assets are as follows for the year ended:

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,558,304	\$ 11,119,852	\$ 15,678,156
Investment Return			
Investment income, gains	95,508	232,990	328,498
Unrealized gains	35,878	87,523	123,401
<b>Total Investment return</b>	<b>131,386</b>	<b>320,513</b>	<b>451,899</b>
Contributions	25,000	-	25,000
Appropriation of endowment assets for expenditures	(163,512)	(398,883)	(562,395)
<b>Endowment net assets, end of year</b>	<b>\$ 4,551,178</b>	<b>\$ 11,041,482</b>	<b>\$ 15,592,660</b>

# Mingei International, Inc.

## Notes to Financial Statements

### (9) Net Assets with Donor Restrictions

Net assets released from purpose restrictions were comprised of the following:

For the year ended	June 30, 2020
Capital campaign	\$ 16,013,417
Programs, exhibitions and acquisitions	1,148,514
<b>Total net assets released from donor restrictions</b>	<b>\$ 17,161,931</b>

Purpose restricted net assets were available for the following initiatives:

For the year ended	June 30, 2020
Programs, exhibitions, and acquisitions	\$ 13,133,603
Endowment by Gwendolyn E. Preacher Fund for exhibition	1,432,324
Building and endowment fund	618,821
MWL Director's Chair	331,052
Operating endowment fund	307,042
San Diego Foundation – operations	201,065
Brinley Thomas endowment	8,526
<b>Total purpose restricted net assets</b>	<b>\$ 16,032,433</b>

Perpetually restricted net assets consisted of the following:

For the year ended	June 30, 2020
Endowment by Gwendolyn E. Preacher Fund for exhibition enhancement	\$ 4,385,927
Building and endowment fund	1,825,741
Operating endowment fund	1,011,862
MWL Director's Chair	791,166
Brinley Thomas endowment	120,000
San Diego Foundation – operations	7,955
<b>Total perpetually restricted net assets</b>	<b>\$ 8,142,651</b>

### (10) Certain Transactions with Related-Parties

During the year, the Museum had the following transactions with related parties.

For the year ended	June 30, 2020
Contributions by Board of Trustees	\$ 12,162,609
<b>As of</b>	<b>June 30, 2020</b>
Pledges receivable from Board of Trustees	\$ 3,324,475

# Mingei International, Inc.

## Notes to Financial Statements

---

### (11) Concentrations

The Museum maintains its cash with various financial institutions in California. The balances are insured by Federal Deposit Insurance Corporation up to \$250,000 per institution. At June 30, 2020, the Museum's deposits were all insured.

Financial instruments potentially subjecting the Museum to concentrations of credit risk consists primarily of investments in marketable securities and cash deposits held in excess of the Securities Investor Protection Corporation ("SIPC") insurance threshold. Investment securities are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the statement. The risk associated with the investments is mitigated through diversification.

During 2020, the Museum made significant purchases from one major vendor which comprised approximately \$11,548,000 (66%) of total purchases during the year. The Museum had approximately \$2,071,000, in accounts payable to this vendor at June 30, 2020.

### (12) Operating Leases

On March 1, 2017, the Museum commenced on a lease agreement for a storage facility in Chula Vista. The agreement provides the Museum approximately 4,458 square feet of storage space. The term of the lease is 10 years and the annual lease payment is approximately \$61,000. On April 1, 2020 the Museum renewed a lease for 3,127 square feet of storage and office space in Chula Vista for an 18-month term and annual lease payment of approximately \$41,000. In addition to the Chula Vista facilities, on September 1, 2018 the Museum rented office and retail space at its Liberty Station facility for a one-year term, later increased to 18 months, and annual rent payment is approximately \$51,000.

Future minimum lease payments under operating leases at June 30, 2020 are as follows:

Fiscal 2021	\$ 129,800
Fiscal 2022	73,100
Fiscal 2023	64,200
Fiscal 2024	65,700
Fiscal 2025	67,200
Thereafter	115,200
<b>Total</b>	<b>\$ 515,200</b>

Rent expense for fiscal year ended June 30, 2020 was approximately \$224,000.

# Mingei International, Inc.

## Notes to Financial Statements

---

### **(13) Employee Retirement Plan**

The Museum has an employee retirement plan that is a defined contribution plan under which the Museum matches a percentage of the participants' contributions after one month of employment and provides a safe harbor contribution of no less than 3% after one month of employment. The contributions are made in accordance with Section 401(k) of the Internal Revenue Code. Total employer contributions were approximately \$77,000 for 2020.

### **(14) Subsequent Events**

The Museum has evaluated subsequent events through December 29, 2020, the date which the financial statements were available to be issued.

# Mingei International, Inc.

## Shop Mingei Revenues and Expenses Year Ended June 30, 2020

<b>Sales (Net)</b>	\$	67,428
<b>Cost of Sales</b>		
Consignment		22,579
Purchased merchandise		12,373
<b>Total cost of sales</b>		<b>34,952</b>
<b>Gross Profit</b>		<b>32,476</b>
<b>Operating Expenses</b>		
Rent		23,902
Salaries and wages		31,885
Utilities		6,973
Depreciation		3,587
Advertising/Signage		87
Credit card fees		2,803
Maintenance and operations		8,520
Supplies		1,324
Telephone		1,034
Insurance		860
Dues and subscriptions		175
Shipping		148
<b>Total operating expenses</b>		<b>81,298</b>
<b>Net Loss</b>	\$	<b>(48,822)</b>

*The accompanying notes are an integral part of this supplemental schedule.*

# Mingei International, Inc.

## Café Mingei Revenues and Expenses Year Ended June 30, 2020

<b>Sales (Net)</b>	\$	86,724
<b>Cost of Sales</b>		47,015
<b>Gross Profit</b>		39,709
<b>Operating Expenses</b>		
Salaries and wages		151,900
Rent		13,749
Maintenance and operations		5,518
Credit card fees		5,040
Depreciation		4,451
Wastage/Shrinkage		3,814
Utilities		3,134
Supplies		3,135
Insurance		2,183
Travel		996
Telephone		849
Signage		35
License & Permits		621
Other miscellaneous		388
Total operating expenses		195,813
<b>Net Loss</b>	\$	(156,104)

*The accompanying notes are an integral part of this supplemental schedule.*

# Mingei International, Inc.

## Schedule of Budgeted and Actual Expenditures of City of San Diego TOT Funds Year Ended June 30, 2020

---

	Budgeted Funds	Expenditures
<b>Personnel expenses:</b>		
All salaried personnel	\$ 148,343	\$ 154,854
<b>Total Expenses</b>	<b>\$ 148,343</b>	<b>\$ 154,854</b>

---

Note: Budgeted and actual amounts are only a component of the Museum's operations and are not intended to reflect all of the operations of the Museum