



Mingei International, Inc.

Financial Statements

As of and for the Years Ended June 30, 2018 and 2017



Mingei International, Inc.

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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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 The Collectors' Gallery 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
October 12, 2018

Mingei International, Inc.

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,922,177	\$ 1,280,308
Pledges receivable, net	294,900	35,000
Grants and other receivables, net	-	9,250
Prepaid and other assets	121,289	223,333
Inventories	98,112	103,644
Total current assets	6,436,478	1,651,535
Other Assets:		
Investments	15,781,909	14,905,632
Pledges receivable - noncurrent, net	94,668	158,796
Property, furniture and equipment, net	4,718,904	3,615,926
Museum collection, net	15,137,397	15,087,979
Total assets	\$ 42,169,356	\$ 35,419,868
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 304,373	\$ 72,232
Accrued expenses	540,944	507,465
Total current liabilities	845,317	579,697
Net Assets:		
Unrestricted		
Board designated endowments	4,472,525	4,183,371
Undesignated	19,648,672	18,913,640
Temporarily restricted	9,062,191	3,642,794
Permanently restricted	8,140,651	8,100,366
Total net assets	41,324,039	34,840,171
Total Liabilities and Net Assets	\$ 42,169,356	\$ 35,419,868

The accompanying notes are an integral part of these financial statements.

Mingei International, Inc.

Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues, net:				
Contributions	\$ 2,192,450	\$ 6,124,830	\$ 40,285	\$ 8,357,565
Investment income	363,542	809,736	-	1,173,278
Collectors' Gallery	431,893	-	-	431,893
Café Mingei	407,727	-	-	407,727
Memberships	260,935	-	-	260,935
Special events and fundraising	251,710	-	-	251,710
Government grants	226,185	-	-	226,185
Admissions	154,244	-	-	154,244
Permanent collection contributions	60,507	-	-	60,507
Other income	4,545	-	-	4,545
Net assets released from restrictions	1,515,169	(1,515,169)	-	-
Loss from deaccession of collection	(80,081)	-	-	(80,081)
Total support and revenues	5,788,826	5,419,397	40,285	11,248,508
Expenses:				
Program services:				
Exhibitions	1,333,675	-	-	1,333,675
Registration	387,417	-	-	387,417
Education	234,160	-	-	234,160
Library	143,291	-	-	143,291
Total program expenses	2,098,543	-	-	2,098,543
Development:				
Marketing & public relations	455,795	-	-	455,795
Special events and fundraising	356,959	-	-	356,959
Memberships	337,930	-	-	337,930
Total development expenses	1,150,684	-	-	1,150,684
Management and general	707,309	-	-	707,309
Collectors' Gallery	429,865	-	-	429,865
Café Mingei	378,239	-	-	378,239
Total expenses	4,764,640	-	-	4,764,640
Change in Net Assets	1,024,186	5,419,397	40,285	6,483,868
Net Assets - Beginning of Year	23,097,011	3,642,794	8,100,366	34,840,171
Net Assets - End of Year	\$ 24,121,197	\$ 9,062,191	\$ 8,140,651	\$ 41,324,039

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

Mingei International, Inc.

Statement of Activities Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues, net:				
Contributions	\$ 1,313,536	\$ 980,386	\$ -	\$ 2,293,922
Investment income	413,043	1,056,615	-	1,469,658
Other income	603,787	-	-	603,787
Collectors' Gallery	457,370	-	-	457,370
Café Mingei	432,710	-	-	432,710
Memberships	267,531	-	-	267,531
Government grants	243,374	-	-	243,374
Admissions	161,070	-	-	161,070
Special events and fundraising	121,117	-	-	121,117
Permanent collection contributions	88,988	-	-	88,988
Net assets released from restrictions	778,100	(778,100)	-	-
Loss from deaccession of collection	(103,598)	-	-	(103,598)
Total support and revenues	4,777,028	1,258,901	-	6,035,929
Expenses:				
Program services:				
Exhibitions	1,205,448	-	-	1,205,448
Registration	329,921	-	-	329,921
Education	222,648	-	-	222,648
Library	111,302	-	-	111,302
Total program expenses	1,869,319	-	-	1,869,319
<i>Development:</i>				
Marketing & public relations	402,586	-	-	402,586
Special events and fundraising	331,719	-	-	331,719
Memberships	137,514	-	-	137,514
Total development expenses	871,819	-	-	871,819
Management and general	549,915	-	-	549,915
Collectors' Gallery	429,476	-	-	429,476
Café Mingei	364,111	-	-	364,111
Total expenses	4,084,640	-	-	4,084,640
Change in Net Assets	692,388	1,258,901	-	1,951,289
Net Assets - Beginning of Year	22,404,623	2,383,893	8,100,366	32,888,882
Net Assets - End of Year	\$ 23,097,011	\$ 3,642,794	\$ 8,100,366	\$ 34,840,171

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

Mingei International, Inc.

Statements of Cash Flows

<i>Years Ended June 30,</i>	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 6,483,868	\$ 1,951,289
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	192,484	212,262
Loss on deaccession of collection	82,558	103,450
Change in fair value of investments	(1,126,158)	(1,465,308)
Permanent collection contributions	(60,507)	(88,988)
Bad debt expense	10,000	263,204
Change in operating assets and liabilities:		
Receivables	(196,522)	(10,931)
Inventories	5,532	(4,019)
Prepaid and other assets	102,044	(144,227)
Accounts payable and accrued expenses	265,620	(64,805)
Net cash from operating activities	5,758,919	751,927
Cash Flows From Investing Activities:		
Proceeds from securities trading	14,735,861	1,700,000
Purchase of property, equipment and leasehold improvements	(1,295,462)	(297,083)
Purchase of permanent collection	(71,469)	(17,305)
Purchase of securities	(14,485,980)	(2,199,951)
Net cash from investing activities	(1,117,050)	(814,339)
Net Change in Cash and Cash Equivalents	4,641,869	(62,412)
Cash and Cash Equivalents - Beginning of Year	1,280,308	1,342,720
Cash and Cash Equivalents - End of Year	\$ 5,922,177	\$ 1,280,308
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Income taxes	\$ 48,514	\$ 9,045

The accompanying notes are an integral part of these financial statements.

Mingei International, Inc.

Notes to Financial Statements

(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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restriction.

The Museum reports gifts of cash and other assets as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts received during the year, with donor restrictions that are satisfied before year end, are reported as unrestricted contributions. Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for generating investment income to fund programs or current operations.

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, 2018 and 2017.

Mingei International, Inc.

Notes to Financial Statements

Grants

City and County of San Diego grants and other grants are recognized as permanently restricted, temporarily restricted, or unrestricted support, depending on the stipulations of the grant agreements. When a grant restriction expires, stipulated time restrictions end or purpose restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted support.

Physical facilities

The City of San Diego owns the building occupied by the Museum in Balboa Park. 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. Accounting principles generally accepted in the United States of America (“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 and no impact to change in net assets.

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. In the event that 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;
- 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.

Mingei International, Inc.

Notes to Financial Statements

Assets held for sale and discontinued operations, cont'd

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.

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 unrestricted net assets or temporarily restricted until those amounts are appropriated for expenditures by the Museum.

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

Collectors' Gallery 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 Museum has adopted the policy of capitalizing its collection. The collection consists of museum objects donated to and purchased by the Museum that have been accessioned. Donated museum objects are stated at the estimated fair market value at the time of donation and recognized in the statement of activities net of an estimated allowance for any donated items that may not be accessioned. The allowance is reviewed and adjusted annually to contribution revenue, based on the difference between objects donated and objects eventually accessioned. Museum objects purchased by the Museum are capitalized at cost. Gains and losses on the de-accession of donated collection items are classified in the statement of activities based on the absence or existence and nature of donor restrictions placed on the item at the time of donation.

Mingei International, Inc.

Notes to Financial Statements

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. Income tax expense for such unrelated business income totaled approximately \$26,000 and \$24,000 and in 2018 and 2017, respectively.

At June 30, 2018, the federal statute of limitation remains open for the 2015 through 2018 tax years. The statute of limitations for the state income tax returns remains open for the 2014 through 2018 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. There were contributed services of approximately \$10,000 and \$25,000 recognized for the years ended June 30, 2018 and 2017, respectively. 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) 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 2%. The pledges receivable are composed of the following:

Mingei International, Inc.

Notes to Financial Statements

(2) Pledges Receivable, Cont'd

	June 30, 2018	June 30, 2017
Pledges receivable, due in less than one year	\$ 294,900	\$ 35,000
Pledges receivable, due in two to more years	99,670	161,796
	394,570	196,796
Less: net present value discount for pledges due in more than one year	(5,002)	(3,000)
Total pledges receivables	\$ 389,568	\$ 193,796
Capital Campaign - Balboa	\$ 294,900	\$ 158,796
Other	94,668	35,000
Total pledges receivables	\$ 389,568	\$ 193,796

The Museum wrote off approximately \$10,000 and \$263,000 in bad debt expense as of June 30, 2018 and 2017, respectively. Based on its history of collections and an assessment of existing receivables, management of the Museum believes that no allowance for doubtful pledges is necessary at June 30, 2018 and 2017.

(3) Inventories

Inventories consist of the following:

	June 30, 2018	June 30, 2017
Collectors' Gallery	\$ 71,693	\$ 83,483
Purchased publications	6,654	7,253
Café Mingei	19,765	12,908
Total inventories	\$ 98,112	\$ 103,644

(4) Investments

Investments consist of the following:

	June 30, 2018	June 30, 2017
	Fair Value	Fair Value
Mutual funds	\$ 15,249,613	\$ 14,406,564
Managed investment pools	532,296	499,068
Total investments carries at fair value	\$ 15,781,909	\$ 14,905,632

Mingei International, Inc.

Notes to Financial Statements

(4) Investments, Cont'd

Investment return is summarized as follows:

	June 30, 2018	June 30, 2017
Interest and dividends	\$ 384,229	\$ 321,066
Realized gains	310,427	262,353
Unrealized gains	478,622	886,239
Total investment income	\$ 1,173,278	\$ 1,469,658

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.

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, 2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Domestic equities	\$ 5,952,158	\$ -	\$ -	\$ 5,952,158
Foreign equities	3,606,501	-	-	3,605,501
Short term bonds	5,690,959	-	-	5,690,959
Managed investment pools	-	-	532,291	532,291
Total investments carried at fair value	\$ 15,249,618	\$ -	\$ 532,291	\$ 15,781,909

Mingei International, Inc.

Notes to Financial Statements

(4) Investments, Cont'd

	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Mutual Funds:				
Domestic equities	\$ 5,592,273	\$ -	\$ -	\$ 5,592,273
Foreign equities	3,942,153	-	-	3,942,153
Short term bonds	4,872,138	-	-	4,872,138
Managed investment pools	-	-	499,068	499,068
Total investments carried at fair value	\$ 14,406,564	\$ -	\$ 499,068	\$ 14,905,632

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 years ended:

	June 30, 2018	June 30, 2017
Managed investment pools, beginning of year	\$ 499,068	\$ 449,073
Net unrealized gain (loss)	33,223	49,995
Managed investment pools, end of year	\$ 532,291	\$ 499,068

(5) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are summarized as follows:

	June 30, 2018	June 30, 2017
Furniture & equipment	\$ 2,503,471	\$ 2,371,748
Leasehold improvements	4,674,898	4,674,899
	7,178,369	7,046,647
Less: Accumulated depreciation	4,597,053	4,404,569
Plus: Construction in process	2,137,588	973,848
Total Property, Equipment & Leasehold Improvements	\$ 4,718,904	\$ 3,615,926

Mingei International, Inc.

Notes to Financial Statements

(5) Property, Equipment, and Leasehold Improvements, Cont'd

Depreciation expense for the years ended June 30, 2018 and 2017 was approximately \$193,000 and \$212,000 respectively.

(6) Museum Collection

Museum collection is composed of the following:

	June 30, 2018	June 30, 2017
Museum collection	\$ 15,291,456	\$ 15,242,038
Accession allowance	(154,059)	(154,059)
Total museum collection	\$ 15,137,397	\$ 15,087,979

(7) Endowment

The Museum's endowment consists of six individual funds established for particular purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required, 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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets 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 making a determination 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 as of June 30, 2018 and 2017.

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.

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.

Mingei International, Inc.

Notes to Financial Statements

Endowment net asset composition by fund type

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

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,888,384	\$ 8,140,651	\$ 11,029,035
Board-designated endowment funds	4,472,525	-	-	4,472,525
Total investments carried at fair value	\$ 4,472,525	\$ 2,888,384	\$ 8,140,651	\$ 15,501,560

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,482,429	\$ 8,100,366	\$ 10,582,795
Board-designated endowment funds	4,183,371	-	-	4,183,371
Total investments carried at fair value	\$ 4,183,371	\$ 2,482,429	\$ 8,100,366	\$ 14,766,166

Changes in endowment net assets

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

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,183,371	\$ 2,482,429	\$ 8,100,366	\$ 14,766,166
Investment Return:				
Investment income gains	188,723	477,418	-	666,141
Unrealized gains	131,365	332,318	-	463,683
Total Investment return	320,088	809,736	-	1,129,824
Contributions	128,681	-	40,285	168,966
Appropriation of endowment assets for expenditures	(159,615)	(403,781)	-	(563,396)
Endowment net assets, end of year	\$ 4,472,525	\$ 2,888,384	\$ 8,140,651	\$ 15,501,560

Mingei International, Inc.

Notes to Financial Statements

Changes in endowment net assets, cont'd

	June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,835,807	\$ 1,816,534	\$ 8,100,366	\$ 13,752,707
Investment Return:				
Investment income gains	158,642	410,145	-	568,787
Unrealized gains	250,051	646,470	-	896,521
Total Investment return	408,693	1,056,615	-	1,465,308
Contributions	110,000	-	-	110,000
Appropriation of endowment assets for expenditures	(171,129)	(390,720)	-	(561,849)
Endowment net assets, end of year	\$ 4,183,371	\$ 2,482,429	\$ 8,100,366	\$ 14,766,166

(8) Restrictions on Net Assets

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

For the years ended	June 30, 2018	June 30, 2017
Programs, exhibitions, acquisitions and other	\$ 1,515,169	\$ 778,100
Total net assets released from temporary restrictions	\$ 1,515,169	\$ 778,100

Temporarily restricted net assets were available for the following purposes:

	June 30, 2018	June 30, 2017
Programs, exhibitions, acquisitions and other	\$ 6,173,808	\$ 1,160,365
Endowment by Gwendolyn E. Peacher Fund for exhibition enhancement	1,426,811	1,212,073
Building and endowment fund	616,507	527,773
MWL Director's Chair	329,989	288,570
Operating endowment fund and other	305,808	257,200
San Diego Foundation - operations	200,867	193,155
Brinley Thomas endowment	8,401	3,658
Total temporarily restricted net assets	\$ 9,062,191	\$ 3,642,794

Mingei International, Inc.

Notes to Financial Statements

(8) Restrictions on Net Assets, Cont'd

Permanently restricted net assets consisted of the following:

	June 30, 2018	June 30, 2017
Endowment by Gwendolyn E. Peacher Fund for exhibition enhancement	\$ 4,385,927	\$ 4,385,927
Building and endowment fund	1,825,641	1,785,456
Operating endowment fund	1,009,962	1,009,962
MWL Director's Chair	791,166	791,166
Brinley Thomas endowment	120,000	120,000
San Diego Foundation - operations	7,955	7,855
Total permanently restricted net assets	\$ 8,140,651	\$ 8,100,366

(9) Certain Transactions with Related-Parties

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

For the years ended	June 30, 2018	June 30, 2017
Contributions by Board of Trustees	\$ 1,434,080	\$ 654,765

(10) 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, 2018, 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.

The Museum had one vendor that accounted for approximately 36% and 16%, respectively, of purchases as of June 30, 2018 and 2017.

Mingei International, Inc.

Notes to Financial Statements

(11) Operating Leases

On March 1, 2017, the Museum commenced on a lease agreement for storage facility in Chula Vista. The agreement provides the Museum approximately 4,458 square feet of storage space.

Future minimum lease payments under operating leases at June 30, 2018 are as follows:

Fiscal 2019	\$	58,100
Fiscal 2020		59,700
Fiscal 2021		61,300
Fiscal 2022		62,800
Fiscal 2023		64,200
Thereafter		248,000
Total	\$	554,100

Rent expense for year ended June 30, 2018 was approximately \$61,000.

(12) Subsequent Events

The Museum has evaluated subsequent events through October 12, 2018, the date which the financial statements were available to be issued.

Mingei International, Inc.



Supplemental Schedules

Mingei International, Inc.

The Collectors' Gallery Revenues and Expenses

<i>For the years ended</i>	June 30, 2018	June 30, 2017
Sales (Net)	\$ 431,893	\$ 457,370
Cost of Sales		
Consignment	118,320	114,788
Purchased merchandise	103,792	110,839
Total cost of sales	222,112	225,627
Gross Profit	209,781	231,743
Operating Expenses		
Salaries and wages	\$ 141,063	133,963
Maintenance and operations	27,532	22,341
Credit card fees	15,688	14,910
Depreciation	10,340	11,443
Supplies	4,948	5,828
Utilities	4,292	4,119
Insurance	1,842	1,707
Shipping	786	1,020
Telephone	660	360
Other miscellaneous	335	281
Dues and subscriptions	215	194
Travel	52	821
Printing	-	5,261
Rent	-	1,000
Postage	-	600
Total operating expenses	207,753	203,848
Net Income	\$ 2,028	\$ 27,895

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

Mingei International, Inc.

Café Mingei Revenues and Expenses

<i>For the years ended</i>	June 30, 2018	June 30, 2017
Sales (Net)	\$ 407,727	\$ 432,710
Cost of Sales	147,811	154,428
Gross Profit	259,916	278,282
Operating Expenses		
Salaries and wages	\$ 134,485	128,210
Income Tax	25,955	20,060
Maintenance and operations	24,533	17,690
Credit card fees	15,419	15,686
Supplies	13,527	13,850
Wastage/Shrinkage	5,689	2,720
Depreciation	5,230	5,024
Utilities	2,089	2,004
Insurance	1,756	1,634
License & Permits	599	535
Telephone	540	360
Travel	441	268
Other miscellaneous	165	516
Printing	-	1,023
Signage	-	103
Total operating expenses	230,428	209,683
Net Income	\$ 29,488	\$ 68,599

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 For the Year Ended June 30, 2018

	Budgeted Funds	Expenditures
Personnel expenses:		
All Salaried personnel	\$ 189,410	\$ 186,910
Total Expenses	\$ 189,410	\$ 186,910

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.