



Mingei International, Inc.

Financial Statements

As of and for the Year Ended June 30, 2019



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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 statement of financial position as of June 30, 2019, 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.



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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, 2019, 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 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019 the Museum adopted Accounting Standards Update (ASU) No. 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2019 the Museum elected to change its policy of capitalizing its permanent collection. Collection items are no longer recognized as assets on the statement of financial position, and purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

San Diego, California
November 26, 2019

Mingei International, Inc.

Statement of Financial Position Year Ended June 30, 2019

Assets	
Current Assets:	
Cash and cash equivalents	\$ 13,171,701
Pledges receivable, net	2,055,900
Grants and other receivables, net	5,008
Prepaid and other assets	26,810
Inventories	76,331
Total current assets	15,335,750
Other Assets:	
Investments	15,852,790
Pledges receivable - noncurrent, net	68,573
Property, furniture and equipment, net	5,548,354
Total assets	\$ 36,805,467
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	\$ 513,556
Accrued expenses	567,335
Total current liabilities	1,080,891
Net Assets:	
Without donor restrictions:	
Board designated endowments	4,558,304
Undesignated	5,395,257
Total net assets without donor restrictions	9,953,561
With donor restrictions:	
Purpose restricted	17,630,364
Perpetual in nature	8,140,651
Total net assets with donor restrictions	25,771,015
Total net assets	35,724,576
Total Liabilities and Net Assets	\$ 36,805,467

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

Mingei International, Inc.

Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues, net:			
Contributions	\$ 34,844	\$ 14,478,588	\$ 14,513,432
Investment income, gains (losses)	395,937	492,859	888,796
Permanent collection contributions	264,050	-	264,050
Collectors' Gallery	221,208	-	221,208
Government grants	192,500	-	192,500
Memberships	189,141	-	189,141
Café Mingei	183,124	-	183,124
Special events & fundraising	114,743	-	114,743
Admissions	37,794	-	37,794
Other income	21,785	-	21,785
Net assets released	6,403,274	(6,403,274)	-
Total support and revenues	8,058,400	8,568,173	16,626,573
Expenses:			
<i>Program services:</i>			
Exhibitions	913,056	-	913,056
Registration/Collections	409,576	-	409,576
Education	236,964	-	236,964
Library	152,984	-	152,984
Total program expenses	1,712,580	-	1,712,580
<i>Development:</i>			
Marketing and Public Relations	451,303	-	451,303
Memberships	113,565	-	113,565
Special Events & Fundraising	414,246	-	414,246
Total development expenses	979,114	-	979,114
<i>Collectors' Gallery</i>	247,353	-	247,353
<i>Café Mingei</i>	291,921	-	291,921
<i>Management and General</i>	1,454,184	-	1,454,184
Total operating expenses	4,685,152	-	4,685,152
<i>Non-operating expenses:</i>			
Loss on disposal of fixed assets	2,293,496	-	2,293,496
Total non-operating expenses	2,293,496	-	2,293,496
Change in Net Assets	1,079,752	8,568,173	9,647,925
Net Assets - Beginning of Year	24,121,197	17,202,842	41,324,039
Change in Accounting Policy - See Footnote 1	(15,247,388)	-	(15,247,388)
Net Assets - Beginning of Year (as adjusted)	8,873,809	17,202,842	26,076,651
Net Assets - End of Year	\$ 9,953,561	\$ 25,771,015	\$ 35,724,576

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

Mingei International, Inc.

Statement of Functional Expenses Year Ended June 30, 2019

	Exhibitions	Registration / Collections	Education	Library	Total Program Services	Marketing and Public Relations	Membership	Special Events & Fundraising	Management and General	Collectors' Gallery	Café Mingei	Total Expenses
Expenses:												
Salaries and benefits	\$ 660,676	\$ 223,203	\$ 168,645	\$ 83,139	\$ 1,135,663	\$ 259,664	\$ 23,340	\$ 329,835	\$ 65,058	\$ 73,877	\$ 159,928	\$ 2,047,365
Professional services	13,460	42,833	11,651	15,615	83,559	87,710	1,211	6,622	812,114	1,109	3,577	995,902
Facility expense	51,454	95,449	6,380	2,157	155,440	5,111	1,047	14,469	175,269	26,731	23,015	401,082
Insurance	6,175	13,557	2,528	1,240	23,500	3,904	359	4,950	168,844	971	2,465	204,993
Cost of goods sold	-	-	-	-	-	-	-	-	-	123,252	59,668	182,920
Computer equipment	15,933	12,948	5,891	38,705	73,477	23,121	7,119	10,807	17,491	180	5,254	137,449
Permits and licenses	390	-	250	-	640	110	2,725	25	124,574	25	1,820	129,919
Postage and freight	98,454	621	262	160	99,497	3	6,982	3,642	627	409	141	111,301
Office expenses	1,958	3,664	22,362	4,941	32,925	5,359	11,338	25,634	24,515	2,534	7,034	109,339
Depreciation expense	55,834	10,765	1,601	3,493	71,693	3,326	314	2,886	2,218	5,768	14,580	100,785
Travel and business expense	4,401	569	4,037	-	9,007	360	53,508	35	4,539	409	792	68,650
Printing and signage	912	684	10,588	456	12,640	23,664	288	7,821	19,606	2,918	989	67,926
Advertising and promotion	9	1,091	610	1,092	2,802	30,784	1,009	1,065	495	-	105	36,260
Telephone and data	1,907	2,513	1,048	698	6,166	2,175	349	1,048	15,602	510	1,358	27,208
Bank expense	688	35	230	18	971	-	3,801	3,202	791	8,485	7,587	24,837
Membership and dues	300	1,644	149	1,162	3,255	6,009	175	90	13,729	175	-	23,433
Equipment rental	-	-	407	-	407	-	-	-	7,740	-	-	8,147
Wastage/shrinkage	-	-	-	-	-	-	-	-	-	-	3,608	3,608
Other expenses	-	-	80	-	80	3	-	2,115	859	-	-	3,057
Professional development	505	-	245	108	858	-	-	-	113	-	-	971
Total operating expenses	913,056	409,576	236,964	152,984	1,712,580	451,303	113,565	414,246	1,454,184	247,353	291,921	4,685,152
Loss on disposal of fixed assets	-	-	-	-	-	-	-	-	2,281,861	-	11,635	2,293,496
Total Expenses	\$ 913,056	\$ 409,576	\$ 236,964	\$ 152,984	\$ 1,712,580	\$ 451,303	\$ 113,565	\$ 414,246	\$ 3,736,045	\$ 247,353	\$ 303,556	\$ 6,978,648

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

Mingei International, Inc.

Statement of Cash Flows For Year Ended June 30, 2019

<i>Year Ended June 30,</i>	2019
Cash Flows From Operating Activities	
Change in net assets	\$ 9,647,925
Adjustments to reconcile change in net assets to	
Net cash from operating activities:	
Depreciation	100,785
Loss on disposal of fixed assets	2,293,496
Change in fair value of investments	(692,721)
Change in operating assets and liabilities:	
Receivables	(1,739,913)
Inventories	21,781
Prepaid and other assets	94,479
Accounts payable and accrued expenses	235,573
Net cash from operating activities	9,961,405
Cash Flows From Investing Activities:	
Proceeds from investments	1,122,139
Purchase of property, equipment and leasehold improvements	(3,223,730)
Purchase of permanent collection	(109,991)
Purchase of investments	(500,299)
Net cash from investing activities	(2,711,881)
Net Change in Cash and Cash Equivalents	7,249,524
Cash and Cash Equivalents - Beginning of Year	5,922,177
Cash and Cash Equivalents - End of Year	\$ 13,171,701
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for:	
Income taxes	\$ 20,660

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

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 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. Gifts received during the year, with donor restrictions that are satisfied before year end, are reported as contributions without donor restrictions.

Mingei International, Inc.

Notes to Financial Statements

Contributions, cont'd

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, 2019.

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, 2019 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.

Mingei International, Inc.

Notes to Financial Statements

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.

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.

Mingei International, Inc.

Notes to Financial Statements

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 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 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. Income taxes expense for such unrelated business income totaled \$809 in 2019.

At June 30, 2019, the federal statute of limitation remains open for the 2016 through 2019 tax years. The statute of limitations for the state income tax returns remains open for the 2015 through 2019 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 \$7,000 recognized for the year ended June 30, 2019. 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.

Change in Method of Accounting for Collections

During 2019, the Museum elected to change its policy of capitalizing its permanent collection. The new method of accounting for collections, as outlined above, was adopted as it was deemed best practice and not due to any changes in the elements of the collection.

The financial statements of prior years have been adjusted to reflect the new method retrospectively. As a result of the accounting change, net assets without donor restrictions as of July 1, 2018 decreased from \$24,121,197, as originally reported, to \$8,873,809 and total net assets decreased from \$41,324,039, as originally reported, to \$26,076,651 under the newly adopted policy.

New accounting pronouncement

In August of 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requiring reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 15, 2017 and the Village has adjusted the presentation of these statements accordingly.

(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.

The following table reflects the Museum’s financial assets as of June 30, 2019, 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.

Mingei International, Inc.

Notes to Financial Statements

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

Financial assets at year-end:	
Cash and Cash equivalents	\$ 13,171,701
Contributions, pledges, grants and other receivables due within one year	2,060,908
Investments	15,852,790
<hr/> Total financial assets at year-end	<hr/> 31,085,399
Less amounts not available to be used within one year due to:	
Board designated endowments	4,558,304
Contractual or donor restrictions	8,140,651
Restricted by donor with purpose	17,630,364
Less the endowment funds to be appropriated in 2020	(562,396)
<hr/>	<hr/> 29,766,923
<hr/> Financial assets available for general expenditures within one year	<hr/> \$ 1,318,476

(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 2%. The pledges receivable is composed of the following:

	June 30, 2019
<hr/> Pledges receivable, due in less than one year	<hr/> \$ 2,055,900
Pledges receivable, due in two to more years	71,435
	<hr/> 2,127,335
Less: net present value discount for pledges due in more than one year	(2,862)
<hr/> Total pledges receivables	<hr/> \$ 2,124,473
Capital Campaign - Balboa	\$ 2,055,900
Other	68,573
<hr/> Total pledges receivables	<hr/> \$ 2,124,473

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, 2019.

(4) Inventories

Inventories consist of the following:

	June 30, 2019
<hr/> Collectors' Gallery	<hr/> \$ 49,979
Purchased publications	4,664
Café Mingei	21,688
<hr/> Total inventories	<hr/> \$ 76,331

Mingei International, Inc.

Notes to Financial Statements

(5) Investments

Investments consist of the following:

	June 30, 2019
	Fair Value
Mutual funds	\$ 15,300,743
Managed investment pools	552,047
Total investments carried at fair value	\$ 15,852,790

Investment return is summarized as follows:

	June 30, 2019
Interest and dividends	\$ 594,799
Realized losses	(12,687)
Unrealized gains	306,684
Total investment income (loss)	\$ 888,796

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, 2019			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Domestic equities	\$ 6,797,181	\$ -	\$ -	\$ 6,797,181
Foreign equities	2,187,945	-	-	2,187,945
Short term bonds	6,315,617	-	-	6,315,617
Managed investment pools	-	-	552,047	552,047
Total investments carried at fair value	\$ 15,300,743	\$ -	\$ 552,047	\$ 15,852,790

Mingei International, Inc.

Notes to Financial Statements

(5) Investments, Cont'd

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, 2019
Managed investment pools, beginning of year	\$ 532,291
Net unrealized gains	19,756
Managed investment pools, end of year	\$ 552,047

(6) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are summarized as follows:

	June 30, 2019
Furniture & equipment	\$ 487,871
Leasehold improvements	103,929
	591,800
Less: Accumulated depreciation	(270,687)
Plus: Construction in process	5,227,241
Total Property, Equipment & Leasehold Improvements	\$ 5,548,354

Depreciation expense for the year ended June 30, 2019 was approximately \$101,000.

(7) 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 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, 2019.

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.

Mingei International, Inc.

Notes to Financial Statements

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.

Endowment net asset composition by fund type

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

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor- restricted endowment funds	\$ -	\$ 11,119,852	\$ 11,119,852
Board - designated endowment funds	4,558,304	-	4,558,304
Total funds	\$ 4,558,304	\$ 11,119,852	\$ 15,678,156

Mingei International, Inc.

Notes to Financial Statements

Changes in endowment net assets

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

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total Investments Endowments
Endowment net assets, beginning of year	\$ 4,472,525	\$ 11,029,035	\$ 15,501,560
Investment Return:			
Investment income, gains	102,411	252,542	354,953
Unrealized gains	97,454	240,317	337,771
Total Investment return	199,865	492,859	692,724
Contributions	49,762	2,000	51,762
Appropriation of endowment assets for expenditures	(163,848)	(404,042)	(567,890)
Endowment net assets, end of year	\$ 4,558,304	\$ 11,119,852	\$ 15,678,156

(8) Net Assets with Donor Restrictions

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

For the year ended	June 30, 2019
Programs, exhibitions, and acquisitions	\$ 6,403,274
Total net assets released from donor restrictions	\$ 6,403,274

Purpose restricted net assets were available for the following initiatives:

For the year ended	June 30, 2019
Programs, exhibitions, and acquisitions	\$ 14,651,164
Endowment by Gwendolyn E. Preacher Fund for exhibition	1,473,621
Building and endowment fund	636,274
MWL Director's Chair	339,017
Operating endowment fund	318,304
San Diego Foundation – operations	202,549
Brinley Thomas endowment	9,435
Total purpose restricted net assets	\$ 17,630,364

Mingei International, Inc.

Notes to Financial Statements

(8) Net Assets with Donor Restrictions, Cont'd

Perpetually restricted net assets consisted of the following:

<i>For the year ended</i>	<i>June 30, 2019</i>
Endowment by Gwendolyn E. Preacher Fund for exhibition enhancement	\$ 4,385,927
Building and endowment fund	1,825,641
Operating endowment fund	1,009,962
MWL Director's Chair	791,166
Brinley Thomas endowment	120,000
San Diego Foundation – operations	7,955
Total perpetually restricted net assets	\$ 8,140,651

(9) Certain Transactions with Related-Parties

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

<i>For the year ended</i>	<i>June 30, 2019</i>
Contributions by Board of Trustees	\$ 382,337

(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, 2019, 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 2019, the Museum made significant purchases from two major vendors which comprised approximately \$2,071,000 (36%) and \$1,168,000 (20%) of total purchases during the year. The Museum had approximately \$460,000 and \$0, respectively, in accounts payable to these vendors at June 30, 2019.

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. The term of the lease is 10 years and the annual lease payment is approximately \$61,000. On July 1, 2018, the Museum leased an additional 3,127 square feet of storage space for a one-year term and annual lease payment of approximately \$36,000. In addition to the Chula Vista facilities, on September 1, 2018, the Museum rented additional space at its Liberty Station facility for a one-year term and annual rent payment is approximately \$51,000.

Future minimum lease payments under operating leases at June 30, 2019 are as follows:

Fiscal 2020	\$	130,500
Fiscal 2021		68,300
Fiscal 2022		62,800
Fiscal 2023		64,200
Fiscal 2024		65,700
Thereafter		182,300
Total	\$	573,800

Rent expense for fiscal year ended June 30, 2019 was approximately \$215,000.

(12) Subsequent Events

The Museum has evaluated subsequent events through November 26, 2019, the date which the financial statements were available to be issued.

Mingei International, Inc.

The Collectors' Gallery Revenues and Expenses

For the year ended

June 30, 2019

Sales (Net)	\$	221,208
Cost of Sales		
Consignment		68,296
Purchased merchandise		54,956
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Total cost of sales		123,252
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Gross Profit		97,956
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Operating Expenses		
Salaries and wages	\$	63,969
Rent		17,670
Maintenance and operations		16,887
Credit card fees		8,485
Depreciation		5,768
Utilities		3,837
Advertising/Signage		2,918
Supplies		2,067
Insurance		971
Telephone		510
Shipping		410
Travel		409
Dues and subscriptions		200
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Total operating expenses		124,101
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Net Loss	\$	(26,145)

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

Mingei International, Inc.

Café Mingei Revenues and Expenses

For the year ended

June 30, 2019

Sales (Net)	\$	183,124
Cost of Sales		59,668
Gross Profit		123,456
Operating Expenses		
Salaries and wages	\$	159,928
Maintenance and operations		16,196
Depreciation		14,580
Rent		12,879
Supplies		8,810
Credit card fees		7,587
Wastage/Shrinkage		3,608
Insurance		2,465
Utilities		2,281
License & Permits		1,820
Travel		792
Telephone		660
Signage		533
Other miscellaneous		114
Total operating expenses		232,253
Net Loss	\$	(108,797)

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, 2019

	Budgeted Funds	Expenditures
Personnel expenses:		
All salaried personnel	\$ 190,000	\$ 190,000
Total Expenses	\$ 190,000	\$ 190,000

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