



# **Mingei International, Inc.**

## Financial Statements

As of and for the Year Ended June 30, 2016 and 2015



# Mingei International, Inc.

## Contents

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<b>Independent Auditors' Report</b>	3-4
<b>Financial Statements</b>	
Statements of Financial Position	5
Statements of Activities	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-20
<b>Supplemental Schedule</b>	
Schedule of Budgeted and Actual Expenditures of City of San Diego TOT Funds	21



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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, 2016, and the related statements of activities 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, 2016 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*

**Prior Period Financial Statements**

The financial statements of Mingei International, Inc. as of June 30, 2015, were audited by other auditors whose report dated November 13, 2015, expressed an unmodified opinion on those statements.

**Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule, which is comprised of the Schedule of Budgeted and Actual Expenditures of City funds, is presented for purposes of additional analysis and is 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 19, 2016

# MINGEI INTERNATIONAL, INC.

## Statements of Financial Position

<i>June 30,</i>	<b>2016</b>	2015
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,342,720	\$ 620,615
Pledges receivable	120,000	500
Grants and other receivables	62,115	64,511
Prepaid and other assets	79,106	25,673
Inventories	99,625	96,461
Total current assets	1,703,566	807,760
<b>Other Assets:</b>		
Investments	12,940,373	14,129,643
Pledges receivable - noncurrent	273,204	263,204
Property, furniture and equipment, net	3,530,957	2,999,423
Museum collection, net	15,085,284	14,865,949
Total assets	\$ 33,533,384	\$ 33,065,979
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 236,664	\$ 49,559
Accrued expenses	407,838	358,806
Total current liabilities	644,502	408,365
<b>Net Assets:</b>		
Unrestricted		
Board designated endowments	3,835,807	3,947,764
Undesignated	18,568,816	17,628,811
Temporarily restricted	2,383,893	2,980,673
Permanently restricted	8,100,366	8,100,366
Total net assets	32,888,882	32,657,614
<b>Total Liabilities and Net Assets</b>	<b>\$ 33,533,384</b>	<b>\$ 33,065,979</b>

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

# MINGEI INTERNATIONAL, INC.

## Statements of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues:</b>				
Memberships	\$ 276,791	-	-	\$ 276,791
Admissions	167,073	-	-	167,073
Collectors' Gallery	448,741	-	-	448,741
Café Mingei	353,405	-	-	353,405
Government grants	241,459	-	-	241,459
Contributions	1,978,994	493,257	-	2,472,251
Permanent collection contributions	166,923	-	-	166,923
Special events and fundraising	115,957	-	-	115,957
Investment loss	(5,511)	(30,592)	-	(36,103)
Other income (expenses)	(22,117)	-	-	(22,117)
Loss from deaccession of collection	(72,421)	-	-	(72,421)
Net assets released from restrictions	1,059,445	(1,059,445)	-	-
<b>Total support and revenues</b>	<b>4,708,739</b>	<b>(596,780)</b>	<b>-</b>	<b>4,111,959</b>
<b>Expenses:</b>				
<i>Program services:</i>				
Exhibitions	1,133,090	-	-	1,133,090
Registration	331,932	-	-	331,932
Education	237,408	-	-	237,408
Library	110,293	-	-	110,293
<b>Total program expenses</b>	<b>1,812,723</b>	<b>-</b>	<b>-</b>	<b>1,812,723</b>
<i>Development:</i>				
Marketing & public relations	400,934	-	-	400,934
Memberships	139,659	-	-	139,659
Special events and fundraising	442,502	-	-	442,502
<b>Total development expenses</b>	<b>983,095</b>	<b>-</b>	<b>-</b>	<b>983,095</b>
<i>Collectors' Gallery</i>	416,709	-	-	416,709
<i>Café Mingei</i>	323,191	-	-	323,191
<i>Management and general</i>	344,973	-	-	344,973
<b>Total expenses</b>	<b>3,880,691</b>	<b>-</b>	<b>-</b>	<b>3,880,691</b>
<b>Change in Net Assets</b>	<b>828,048</b>	<b>(596,780)</b>	<b>-</b>	<b>231,268</b>
<b>Net Assets - Beginning of Year</b>	<b>21,576,575</b>	<b>2,980,673</b>	<b>8,100,366</b>	<b>32,657,614</b>
<b>Net Assets - End of Year</b>	<b>\$ 22,404,623</b>	<b>\$ 2,383,893</b>	<b>\$ 8,100,366</b>	<b>\$ 32,888,882</b>

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

# MINGEI INTERNATIONAL, INC.

## Statements of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues:</b>				
Memberships	\$ 301,664	-	-	\$ 301,664
Admissions	198,937	-	-	198,937
Collectors' Gallery	447,786	-	-	447,786
Café Mingei	204,754	-	-	204,754
Government grants	200,113	-	-	200,113
Contributions	883,497	447,242	140,000	1,470,739
Permanent collection contributions	153,953	-	-	153,953
Special events and fundraising	54,185	-	-	54,185
Investment income	102,328	226,173	-	328,501
Other income (expenses)	29,600	-	-	29,600
Loss from deaccession of collection	(113,156)	-	-	(113,156)
Net assets released from restrictions	617,108	(617,108)	-	-
<b>Total support and revenues</b>	<b>3,080,769</b>	<b>56,307</b>	<b>140,000</b>	<b>3,277,076</b>
<b>Expenses:</b>				
<i>Program services:</i>				
Exhibitions	1,291,533	-	-	1,291,533
Registration	215,407	-	-	215,407
Education	204,462	-	-	204,462
Library	104,287	-	-	104,287
<b>Total program expenses</b>	<b>1,815,689</b>	<b>-</b>	<b>-</b>	<b>1,815,689</b>
<i>Development:</i>				
Marketing & public relations	360,121	-	-	360,121
Memberships	152,231	-	-	152,231
Special events and fundraising	292,711	-	-	292,711
<b>Total development expenses</b>	<b>805,063</b>	<b>-</b>	<b>-</b>	<b>805,063</b>
<i>Collectors' Gallery</i>	369,412	-	-	369,412
<i>Café Mingei</i>	199,860	-	-	199,860
<i>Management and general</i>	348,998	-	-	348,998
<b>Total expenses</b>	<b>3,539,022</b>	<b>-</b>	<b>-</b>	<b>3,539,022</b>
<b>Change in Net Assets</b>	<b>(458,253)</b>	<b>56,307</b>	<b>140,000</b>	<b>(261,946)</b>
<b>Net Assets - Beginning of Year</b>	<b>22,034,828</b>	<b>2,924,366</b>	<b>7,960,366</b>	<b>32,919,560</b>
<b>Net Assets - End of Year</b>	<b>\$ 21,576,575</b>	<b>\$ 2,980,673</b>	<b>\$ 8,100,366</b>	<b>\$ 32,657,614</b>

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

# MINGEI INTERNATIONAL, INC.

## Statements of Cash Flows

<i>Years Ended June 30,</i>	<b>2016</b>	2015
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 231,268	\$ (261,946)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	211,188	234,516
Loss on deaccession of collection	72,421	113,156
Gain from sale of securities	-	(53,810)
Decrease in fair value of investments	42,307	20,262
Permanent collection contributions	(166,923)	(153,953)
Change in operating assets and liabilities:		
Receivables	(127,104)	131,343
Inventories	(3,164)	352
Prepaid and other assets	(53,433)	63,755
Accounts payable and accrued expenses	236,137	164,573
Net cash provided by operating activities	<b>442,697</b>	258,248
<b>Cash Flows From Investing Activities:</b>		
Proceeds from securities trading	1,746,901	1,047,024
Purchase of property, equipment and leasehold improvements	(742,722)	(76,921)
Purchase of permanent collection	(124,833)	(37,682)
Decrease in board designated cash	-	1,923,307
Purchase of securities	(599,938)	(2,571,496)
Net cash provided by investing activities	<b>279,408</b>	284,232
<b>Net Change in Cash and Cash Equivalents</b>	<b>722,105</b>	542,480
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>620,615</b>	78,135
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 1,342,720</b>	\$ 620,615

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

# Mingei International, Inc.

## Notes to Financial Statements

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### (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, 2016 and 2015.

# Mingei International, Inc.

## Notes to Financial Statements

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### *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.

The Museum has a lease for a storage facility that expires in January 2017. Payments during the fiscal year ending June 30, 2017 will be approximately \$18,000.

### *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. 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.

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.

# Mingei International, Inc.

## Notes to Financial Statements

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### *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 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 market.

### *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

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### *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 accrued for such unrelated business income totaled \$12,699 and \$2,600 in 2016 and 2015, respectively.

At June 30, 2016, the federal statute of limitation remains open for the 2013 through 2016 tax years. The statute of limitations for the state income tax returns remains open for the 2012 through 2016 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 no contributed services recognized for the year ended June 30, 2015 and \$42,556 to be recognized for the year ended June 30, 2016. 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.

### *Reclassification*

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 classifications. These reclassifications have no effect on reported change in net assets.

# Mingei International, Inc.

## Notes to Financial Statements

### (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:

	<b>June 30, 2016</b>	June 30, 2015
Pledges receivable, due in less than one year	\$ 120,000	\$ 500
Pledges receivable, due in two to more years	285,000	275,000
	<b>405,000</b>	275,500
Less: net present value discount for pledges due in more than one year	(11,796)	(11,796)
Total pledges receivables	<b>\$ 393,204</b>	\$ 263,704
Capital Campaign - Balboa	\$ 273,204	\$ 263,204
Other	120,000	500
Total pledges receivables	<b>\$ 393,204</b>	\$ 263,704

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, 2016 and 2015.

### (3) Inventories

Inventories consist of the following:

	<b>June 30, 2016</b>	June 30, 2015
Collectors' Gallery	\$ 87,792	\$ 82,806
Purchased publications	9,126	12,227
Café Mingei	2,707	1,428
Total inventories	<b>\$ 99,625</b>	\$ 96,461

### (4) Investments

Investments consist of the following:

	<b>June 30, 2016</b>	June 30, 2015
	<b>Fair Value</b>	Fair Value
Mutual funds	\$ 12,491,300	\$ 13,674,511
Managed investment pools	449,073	455,132
Total investments carries at fair value	<b>\$ 12,940,373</b>	\$ 14,129,643

# Mingei International, Inc.

## Notes to Financial Statements

### (4) Investments, Cont'd

Investment return is summarized as follows:

	June 30, 2016	June 30, 2015
Interest and dividends	\$ 317,951	\$ 294,953
Realized gains (losses)	(86,583)	53,810
Unrealized losses	(267,471)	(20,262)
Total investment income (loss)	\$ (36,103)	\$ 328,501

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, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Domestic equities	\$ 5,254,050	\$ -	\$ -	\$ 5,254,050
Foreign equities	2,332,999	-	-	2,332,999
Short term bonds	4,904,251	-	-	4,904,251
Managed investment pools	-	-	449,073	449,073
Total investments carried at fair value	\$ 12,491,300	\$ -	\$ 449,073	\$ 12,940,373

# Mingei International, Inc.

## Notes to Financial Statements

### (4) Investments, Cont'd

	June 30, 2015			Total
	Level 1	Level 2	Level 3	
Mutual Funds:				
Domestic equities	\$ 5,789,558	\$ -	\$ -	\$ 5,789,558
Foreign equities	3,135,546	-	-	3,135,546
Short term bonds	4,749,407	-	-	4,749,407
Managed investment pools	-	-	455,132	455,132
Total investments carried at fair value	\$ 13,674,511	\$ -	\$ 455,132	\$ 14,129,643

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, 2016	June 30, 2015
Managed investment pools, beginning of year	\$ 455,132	\$ 450,403
Net unrealized gain (loss)	(6,059)	4,729
Managed investment pools, end of year	\$ 449,073	\$ 455,132

### (5) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are summarized as follows:

	June 30, 2016	June 30, 2015
Furniture & equipment	\$ 2,351,785	\$ 2,310,232
Leasehold improvements	5,370,670	4,669,501
	7,722,455	6,979,733
Less: accumulated depreciation	4,191,498	3,980,310
Total Property, Equipment & Leasehold Improvements	\$ 3,530,957	\$ 2,999,423

Depreciation expense for the years ended June 30, 2016 and 2015 was \$211,188 and \$234,516 respectively.

# Mingei International, Inc.

## Notes to Financial Statements

### (6) Museum Collection

Museum collection is composed of the following:

	<b>June 30, 2016</b>	June 30, 2015
Museum collection	<b>\$ 15,245,153</b>	\$ 15,035,768
Accession allowance	<b>(159,869)</b>	(168,819)
Total museum collection	<b>\$ 15,085,284</b>	\$ 14,866,949

### (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 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 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.

# Mingei International, Inc.

## Notes to Financial Statements

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### *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, 2016 and 2015 respectively.

### *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:

	<b>June 30, 2016</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,816,534	\$ 8,100,366	\$ 9,916,900
Board-designated endowment funds	3,835,807	-	-	3,835,807
<b>Total investments carried at fair value</b>	<b>\$ 3,835,807</b>	<b>\$ 1,816,534</b>	<b>\$ 8,100,366</b>	<b>\$ 13,752,707</b>

	<b>June 30, 2015</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,208,628	\$ 8,100,366	\$ 10,308,994
Board-designated endowment funds	3,947,764	-	-	3,947,764
<b>Total investments carried at fair value</b>	<b>\$ 3,947,764</b>	<b>\$ 2,208,628</b>	<b>\$ 8,100,366</b>	<b>\$ 14,256,758</b>

### *Changes in endowment net assets*

Changes in endowment net assets are as follows for the years ended June 30:

	<b>June 30, 2016</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,947,764	\$ 2,208,628	\$ 8,100,366	\$ 14,256,758
Investment Return:				
Investment income gains	62,189	162,396	-	224,585
Unrealized losses	(73,904)	(192,988)	-	(266,892)
Total Investment return	(11,715)	(30,592)	-	(42,307)
Contributions	38,193	-	-	38,193
Appropriation of endowment assets for expenditures	(138,435)	(361,502)	-	(499,937)
<b>Endowment net assets, end of year</b>	<b>\$ 3,835,807</b>	<b>\$ 1,816,534</b>	<b>\$ 8,100,366</b>	<b>\$ 13,752,707</b>

# Mingei International, Inc.

## Notes to Financial Statements

### Changes in endowment net assets, cont'd

	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,965,197	\$ 2,310,946	\$ 7,960,366	\$ 14,236,509
Investment Return:				
Investment income gains	80,257	203,075	-	283,332
Unrealized gains	9,128	23,098	-	32,226
Total Investment return	89,385	226,173	-	315,558
Contributions	20,000	-	140,000	160,000
Appropriation of endowment assets for expenditures	(126,818)	(328,491)	-	(455,309)
<b>Endowment net assets, end of year</b>	<b>\$ 3,947,764</b>	<b>\$ 2,208,628</b>	<b>\$ 8,100,366</b>	<b>\$ 14,256,758</b>

### (8) Restrictions on Net Assets

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

For the years ended	June 30, 2016	June 30, 2015
Programs, exhibitions, acquisitions and other	\$ 1,059,445	\$ 617,108
Total net assets released from temporary restrictions	\$ 1,059,445	\$ 617,108

Temporarily restricted net assets were available for the following purposes:

	June 30, 2016	June 30, 2015
Programs, exhibitions, acquisitions and other	\$ 567,359	\$ 772,045
San Diego Foundation - operations	180,508	187,956
Building and endowment fund	382,217	467,922
Operating endowment fund and other	173,345	224,416
MWL Director's Chair	220,631	260,635
Brinley Thomas endowment	-	459
Endowment by Gwendolyn E. Peacher Fund for exhibition enhancement	859,833	1,067,240
Total temporarily restricted net assets	\$ 2,383,893	\$ 2,980,673

# Mingei International, Inc.

## Notes to Financial Statements

### (8) Restrictions on Net Assets, Cont'd

Permanently restricted net assets consisted of the following:

	June 30, 2016	June 30, 2015
San Diego Foundation - operations	\$ 7,855	\$ 7,855
Building and endowment fund	1,785,456	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
Endowment by Gwendolyn E. Peacher Fund for exhibition enhancement	4,385,927	4,385,927
Total permanently restricted net assets	\$ 8,100,366	\$ 8,100,366

### (9) Certain Transactions with Related-Party

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

<i>For the years ended</i>	June 30, 2016	June 30, 2015
Contributions by Board of Trustees	\$ 857,419	\$ 226,173

### (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, 2016, 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.

### (11) Subsequent Events

#### *Insurance payout*

Subsequent to June 30, 2016, the Museum received an initial payment of \$150,000 in respect of an insurance claim filed for damages incurred in September 2014.

The Museum has evaluated subsequent events through December 19, 2016, the date which the financial statements were available to be issued.

# MINGEI INTERNATIONAL, INC.

## Schedule of Budgeted and Actual Expenditures of City of San Diego TOT Funds For the Year Ended June 30, 2016

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	<b>Budgeted Funds</b>	<b>Expenditures</b>
<b>Personnel expenses:</b>		
All Salaried personnel	\$ 232,459	\$ 232,459
<b>Total Expenses</b>	<b>\$ 232,459</b>	<b>\$ 232,459</b>

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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.