



JAPANESE AMERICAN NATIONAL MUSEUM
(A CALIFORNIA NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009

JAPANESE AMERICAN NATIONAL MUSEUM
(A CALIFORNIA NONPROFIT CORPORATION)
FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Japanese American National Museum
(A California Nonprofit Corporation)
Los Angeles, California

We have audited the accompanying statement of financial position of the Japanese American National Museum (a California Nonprofit Corporation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Japanese American National Museum. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Japanese American National Museum as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rossi Doskocil & Finkelstein LLP

October 27, 2010

JAPANESE AMERICAN NATIONAL MUSEUM
(A CALIFORNIA NONPROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2010	2009
ASSETS		
Cash and cash equivalents	\$ 1,503,258	\$ 1,607,152
Restricted cash	86,156	57,229
Inventories, net	162,451	306,210
Pledges and grants receivable, net	2,766,232	1,944,893
Investments	8,564,433	7,259,620
Beneficial interest in split-interest arrangements	2,581,016	2,492,461
Building and land lease	8,342,978	8,387,401
Historic building	6,371,498	6,511,021
Other assets	247,661	68,134
Property and equipment, net	24,231,075	24,917,799
Capitalized bond issuance costs, net	223,563	234,209
Total assets	\$ 55,080,321	\$ 53,786,129
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 426,869	\$ 593,182
Notes payable and bonds payable	8,302,500	9,241,389
Other liabilities	175,732	-
Gift annuity and planned giving liabilities	277,858	260,440
Total liabilities	9,182,959	10,095,011
Net assets:		
Unrestricted	14,089,104	14,206,006
Temporarily restricted	23,277,855	21,142,455
Permanently restricted	8,530,403	8,342,657
Total net assets	45,897,362	43,691,118
Total liabilities and net assets	\$ 55,080,321	\$ 53,786,129

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN NATIONAL MUSEUM
(A CALIFORNIA NONPROFIT CORPORATION)
STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Contributions and grant income	\$ 1,254,411	\$ 3,792,742	\$ 50,000	\$ 5,097,153
Contribution of use of historic building	385,304	-	-	385,304
Membership fees	831,718	-	-	831,718
Special events, net of direct costs of \$310,893	895,633	-	-	895,633
Revenue				
Admissions	188,569	-	-	188,569
Museum store, net of cost-of-goods sold of \$373,851	45,207	-	-	45,207
Investment earnings	43,742	138,333	30,073	212,148
Other revenue	285,857	54,536	-	340,393
Net assets released from restrictions	2,271,938	(2,271,938)	-	-
Total support and revenue	6,202,379	1,713,673	80,073	7,996,125
Operating expenses				
Program services:				
Exhibitions and collections	1,317,160	-	-	1,317,160
Education and public programs	1,050,069	-	-	1,050,069
Publications and marketing	407,744	-	-	407,744
Museum store	174,444	-	-	174,444
Supporting services:				
Management and general	633,200	-	-	633,200
Development	449,438	-	-	449,438
Membership	120,045	-	-	120,045
Total operating expenses	4,152,100	-	-	4,152,100
Change in operating net assets	2,050,279	1,713,673	80,073	3,844,025
Provision for uncollectible pledges receivable	(119,154)	-	-	(119,154)
Gain on investments	139,296	338,495	95,766	573,557
Interest on long-term debt	(161,908)	-	-	(161,908)
Valuation of swap agreement	(175,732)	-	-	(175,732)
Depreciation and amortization of property and equipment	(686,724)	-	-	(686,724)
Building and land lease expenses	(1,163,310)	-	-	(1,163,310)
Valuation of split-interest arrangements	351	83,232	11,907	95,490
Change in net assets	(116,902)	2,135,400	187,746	2,206,244
Net assets, beginning of year	14,206,006	21,142,455	8,342,657	43,691,118
Net assets, end of year	\$ 14,089,104	\$ 23,277,855	\$ 8,530,403	\$ 45,897,362

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN NATIONAL MUSEUM
(A CALIFORNIA NONPROFIT CORPORATION)
STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Contributions and grant income	\$ 2,377,336	\$ 2,305,160	\$ 110,668	\$ 4,793,164
Contribution of use of historic building	396,366	-	-	396,366
Membership fees	750,360	-	-	750,360
Special events, net of direct costs of \$336,655	971,825	-	-	971,825
Revenue				
Admissions	161,588	-	-	161,588
Museum store, net of cost-of-goods sold of \$202,393	188,323	-	-	188,323
Investment earnings	52,112	190,621	35,828	278,561
Other revenue	626,042	42,329	-	668,371
Net assets released from restrictions	3,822,924	(3,822,924)	-	-
Total support and revenue	9,346,876	(1,284,814)	146,496	8,208,558
Operating expenses				
Program services:				
Exhibitions and collections	1,737,145	-	-	1,737,145
Education and public programs	1,352,313	-	-	1,352,313
Publications and marketing	703,228	-	-	703,228
Museum store	174,901	-	-	174,901
Supporting services:				
Management and general	855,599	-	-	855,599
Development	555,755	-	-	555,755
Membership	110,655	-	-	110,655
Total operating expenses	5,489,596	-	-	5,489,596
Change in operating net assets	3,857,280	(1,284,814)	146,496	2,718,962
Provision for uncollectible pledges receivable	(264,806)		(555,636)	(820,442)
Loss on investments	(277,831)	(169,875)	(184,119)	(631,825)
Interest on long-term debt	(344,220)	-	-	(344,220)
Valuation of swap agreement	(118,005)	-	-	(118,005)
Depreciation and amortization of property and equipment	(677,321)	-	-	(677,321)
Building and land lease expenses	(1,163,310)	-	-	(1,163,310)
Valuation of split-interest arrangements	(3,178)	(734,144)	-	(737,322)
Change in net assets	1,008,609	(2,188,833)	(593,259)	(1,773,483)
Net assets, beginning of year	13,197,397	23,331,288	8,935,916	45,464,601
Net assets, end of year	\$ 14,206,006	\$ 21,142,455	\$ 8,342,657	\$ 43,691,118

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN NATIONAL MUSEUM
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STATEMENT OF CASH FLOWS

<i>For the years ended June 30,</i>	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 2,206,244	\$ (1,773,483)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	686,724	677,321
Amortization of forgivable debt	(15,000)	(7,500)
Net (gains) losses on investments	(779,811)	621,804
Valuation of swap agreement	175,732	118,005
Valuation of beneficial interest in split-interest arrangements	(95,490)	626,654
Provision for uncollectible pledges	100,744	(776,455)
Write-down of obsolete inventory	110,284	-
Proceeds from gifts restricted for capital campaign	-	(283,700)
Proceeds from gifts restricted for purchase of property and equipment	-	(150,000)
Donated stock	-	(804,514)
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash	(28,927)	6,076
Decrease in inventories	33,475	16,986
(Increase) decrease in pledges and grants receivable	(922,085)	2,775,544
Decrease in historic building	183,946	172,888
(Increase) decrease in other assets	(168,881)	177,951
Decrease in accounts payable and accrued expenses	(166,313)	(301,402)
Increase in gift annuity and planned giving liabilities	17,418	72,035
Net cash provided by operating activities	1,338,060	1,168,210
Cash flows from investing activities:		
Expenditures for property and equipment	-	(150,000)
Proceeds from sales of investments in securities	150,000	899,514
Purchase of investments in securities	(668,065)	(580,646)
Net cash (used in) provided by investing activities	(518,065)	168,868
Cash flows from financing activities:		
Proceeds from gifts restricted for capital campaign	-	283,700
Proceeds from gifts restricted for purchase of property and equipment	-	150,000
Payments on swap agreement	-	(327,000)
Payments on term loan	(688,889)	(573,333)
Payment of Community Redevelopment Agency note	-	(65,000)
Payment of bond principal	(235,000)	(225,000)
Net cash used in financing activities	(923,889)	(756,633)
Net change in cash and cash equivalents	(103,894)	580,445
Cash and cash equivalents at beginning of year	1,607,152	1,026,707
Cash and cash equivalents at end of year	\$ 1,503,258	\$ 1,607,152
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 159,276	\$ 389,186
Noncash investment and financing activities:		
Purchase of property and equipment from assumption of debt	\$ -	\$ 150,000

The accompanying notes are an integral part of these financial statements

JAPANESE AMERICAN NATIONAL MUSEUM
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NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

NOTE 1

GENERAL

The Japanese American National Museum (the “National Museum”) is a California not-for-profit corporation, incorporated March 1, 1985 in the State of California. The mission of the National Museum is to promote understanding and appreciation of America’s ethnic and cultural diversity by preserving, interpreting and sharing the experiences of Japanese Americans. As the premier institution in its field, the National Museum houses the largest well documented collection of Japanese American artifacts in the world. The National Museum sponsors ongoing exhibitions, lectures, workshops, educational programs, and related events at its Los Angeles headquarters. As a “museum without borders”, the institution regularly presents exhibitions, public programs, and research projects in collaboration with Japanese American communities, other ethnic communities, and pre-eminent scholars, museums, and educational and cultural institutions around the globe.

The National Museum is accredited by the American Association of Museums and is an affiliate of the Smithsonian Institution.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

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

Effective September 30, 2009, the Financial Accounting Standards Board (“FASB”) established The FASB Accounting Standards Codification (“ASC”) as the source of authoritative accounting to be applied by nongovernmental entities in the

preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). Except for newly issued standards that have not been codified, references to codified literature have been updated to reflect this change. Adoption of the ASC did not have an impact on the National Museum’s statement of financial position, activities or cash flows.

The National Museum’s net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the National Museum and changes therein are presented and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in carrying out the National Museum's mission.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the National Museum and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of the National Museum's programs and operations unless otherwise stipulated by the donor.

In preparing these financial statements, the National Museum evaluated the period from July 1, 2010 through the date the financial statements were available for issuance for subsequent events requiring recognition and or disclosure in the accompanying financial statements.

For the years ended June 30, 2010 and 2009

Revenue recognition:

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

- *Contributions* (contributions including unconditional promises to give) - are reported as support revenue in the period received and as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expiration of temporarily restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or stipulated time period has elapsed) are reported as net assets released from restrictions in the accompanying statement of activities.

Contributions whose restrictions are met in the same year as the contribution is made are initially classified as temporarily restricted net assets. Amounts expected to be collected beyond one year are recorded at the present value of estimated future cash flows. Management determined an appropriate interest rate based on historical risk-free interest adjusted on determined risk. The amortization of the discount is included in general support.

- *Grants and contracts* – Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. The amount expended in excess of reimbursements are reported as grants receivable.
- *Investment return (loss)* – Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.
- *Admissions* – Revenues from service revenue is recognized at the time services are provided.

- *Membership fees* – Membership fees are recognized as revenue when such income is received.
- *Auxiliary enterprises* – Revenues from supporting services such as the National Museum gift shop are recorded at the time of delivery of a product or service.

Allowance for doubtful accounts:

An allowance for uncollectible amounts is determined using the age of the receivable, creditworthiness of parties and historical collection experience.

Benefits provided to donors at special events:

The Museum conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of the meals and entertainment provided at special events is measured at the actual cost to the Museum.

Fair value of financial instruments:

Fair Value Determination

The fair value of the National Museum's financial instruments as of June 30, 2010 and 2009 represent management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any observable inputs, management's own judgments about the assumptions of market participants were used in pricing the asset.

Those judgments are developed by management based on the best information available in the

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For the years ended June 30, 2010 and 2009

circumstances as further detailed in note 4 to the financial statements.

Fair Value Hierarchy

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) No. 820, “*Fair Value Measurements and Disclosures*”, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
- Level II inputs are inputs other than quoted prices included within Level I that are observable for the assets, either directly or indirectly) such as quoted prices for similar assets or liabilities quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data.
- Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and cash equivalents:

Cash and cash equivalents consist of cash on premises generated through the course of daily activities and cash on deposit with banks as well as

money market funds or short-term investments held at financial organizations with original maturities of three months or less from the date of purchase.

Restricted cash:

Restricted cash represents the National Museum’s charitable gift annuity fund. The National Museum offers a charitable remainder annuities program for those who desire to donate. The National Museum annuities are written under authority granted to it by the Insurance Commissioner of the State of California. Annuity assets are held by a custodian at fair value. All investments are in a money market fund. Payments are made from these assets to the annuity beneficiary in accordance with the contract.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out (“FIFO”) method. Inventories consist of sundry items such as books, gift items, cards and educational materials available through the National Museum’s retail store.

The National Museum wrote down and reserved \$110,284 for excess and obsolete inventory during the year ended June 30, 2010. There was no inventory write off or reserves during the year ended June 30, 2009.

Investments:

Investments in securities are initially recorded at cost if purchased or fair market value if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment income, gains and losses are reported as unrestricted income unless use of the earnings is restricted by the donor.

Undeveloped land was donated in 1990 and was recorded at the estimated fair market value on the date of the receipt. It is the intention of the National

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For the years ended June 30, 2010 and 2009

Museum to hold the land as a long-term investment. The property is carried at the lower of the value recorded at the date of receipt or net realizable value.

Beneficial interest in split-interest agreements:

The National Museum is the beneficiary under various charitable remainder trusts. The National Museum is the trustee of some of the irrevocable and revocable trusts; others are administered by third party trustees.

National Museum is the trustee:

For irrevocable agreements, assets are included in the National Museum's beneficial interest in split interest arrangements and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is based on the present value of the future payments discounted at the appropriate risk-free rate at the inception of each agreement and the applicable mortality tables. Discount rates were 3.2% and 2.8% at June 30, 2010 and 2009, respectively.

Liabilities are adjusted during the terms of the trust for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled \$192,086 and \$196,796 at June 30, 2010 and 2009, respectively, and are included in gift annuities and planned giving liabilities in the statement of financial position. The Annuity 2000 Mortality Table was used for both the years ended June 30, 2010 and 2009.

The National Museum is also the trustee for certain revocable agreements. Assets contributed are included in the National Museum's beneficial interest in split interest arrangements at fair value, and amounts equal to the value of the assets are included in gift annuities and planned giving

liabilities. Total assets and liabilities for revocable agreements were \$21,623 and 23,848 at June 30, 2010 and 2009, respectively.

Assets held by others:

The National Museum is the beneficiary of charitable remainder trusts held and administered by others. The present value of the estimated future cash flows from the trusts approximates the value of the underlying assets and is included in beneficial interest in split-interest arrangements in the statement of financial position. Contribution revenues are recognized at the date the trusts are established.

Property and equipment:

Purchased property and equipment are recorded at cost, and donated assets are recorded at the estimated fair value on the date of the receipt.

The National Museum depreciates its property and equipment using the straight-line-method over the following estimated useful lives:

Furniture, fixtures and equipment	3 – 10 years
Building improvements	10 - 20 years
Buildings	55 years
Exhibition and media development costs	5 – 10 years

Repairs and maintenance costs are expensed as incurred. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used and gifts of cash or other assets that must be used to acquire and maintain long-lived assets are reported as restricted support. Absent explicit donor stipulations, the National Museum reports expirations of donor restrictions when such long-lived assets are placed in service.

Artifact collection:

The National Museum's artifact collection is comprised of objects, photographs, home movies, books, manuscripts, works of art and artifacts of

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historical significance that are held for educational and curatorial purposes. Each item is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The artifact collection, which was acquired primarily through contributions since the National Museum's inception, is not recognized as an asset on the statement of financial position. The National Museum's collection policies are consistent with the Code of Ethics for Museums adopted by the American Association of Museums.

Capitalized bond issuance cost:

Bond discount and issuance costs are amortized as additional interest expense based on the terms of the bond using the straight-line method, which approximates the effective interest method.

Income taxes:

The Internal Revenue Service has classified the National Museum as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the National Museum is exempt from California state income taxes from the Franchise Tax Board.

In accordance with FASB ASC No. 740, "Uncertainty in Income Taxes", (formerly FASB Interpretation No. 48 ("FIN 48), "Accounting for Uncertainty in Income Taxes" – an interpretation of FASB Statement 109), the National Museum recognizes the impact of tax positions in the financial statements. To date, the National Museum has not recorded any uncertain tax positions.

Contributed services (unaudited):

A substantial number of unpaid volunteers have made significant contributions of their time and services to further the National Museum's mission. Management places the value of this contributed time at approximately \$800,000 for approximately 40,000 volunteer hours worked for the years ended

June 30, 2010 and 2009, respectively. This amount is not reflected in these financial statements since the recognition criteria under ASC 958 were not met.

Use of estimates:

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

Concentration of credit risk:

Cash and cash equivalents, investments in securities, and receivables are the primary form of concentration of credit risk to which the National Museum is subject. The National Museum places its cash and cash equivalents with high credit quality financial institutions. Conservative investment guidelines established by the Board govern the National Museum's investments in securities to achieve diversification of the portfolio.

The percentages of the amounts due from major donors to total pledges and grants receivable as of June 30, 2010 and 2009 are as follows:

<i>As of June 30,</i>	2010	2009
Donor 1	47%	24%
Donor 2	13%	14%
Donor 3	9%	13%
Donor 4	7%	11%

As of June 30, 2010 and 2009, there were three and four, respectively, related party receivables from current board members that made up 20% and 34%, respectively, of total pledges and grant receivables.

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For the years ended June 30, 2010 and 2009

One donor made up 41% and 15% of total contributions and grant revenue for the year ended June, 30, 2010 and 2009, respectively.

Reclassifications:

Certain reclassifications have been made so that the June 30, 2009 financial statement amounts conform to the June 30, 2010 financial statement classifications. These reclassifications had no effect on the reported change in net assets for the year ended June 30, 2009.

NOTE 3

PLEDGES AND GRANTS RECEIVABLE

The National Museum has the following pledges and grants receivable:

The present value of estimated future cash flows on unconditional promises to give was determined using a discount rate ranging from 5% to 5.5% for the years ended June 30, 2010 and 2009.

<i>As of June 30,</i>	2010	2009
Promises to give		
Due within 1 year	\$ 1,439,869	\$ 1,113,732
Due within 2 to 5 years	1,752,429	1,020,579
Due after 5 years	165,000	165,000
Total	3,357,298	2,299,311
Less:		
Present value discount	(275,133)	(139,229)
Allowance for doubtful accounts	(315,933)	(215,189)
Net promises to give	\$ 2,766,232	\$ 1,944,893

NOTE 4

INVESTMENTS

Long term investments consisted of the following:

<i>As of June 30,</i>	2010	2009
Fixed income funds	\$ 5,408,557	\$ 4,885,407
Domestic equity funds	2,581,140	1,870,674
International equity funds	538,736	467,539
Land held for investment	36,000	36,000
	\$ 8,564,433	\$ 7,259,620

The following table summarizes investments by ASC-820 levels as of June 30, 2010:

	Fair value	Level 1	Level 2	Level 3
Fixed income funds	\$ 5,408,557	\$ 5,408,557	\$ -	\$ -
Domestic equity funds	2,581,140	2,581,140	-	-
International equity funds	538,736	538,736	-	-
Land held for investment	36,000	-	36,000	-
Split interest agreements	2,581,016	-	2,581,016	-
Total financial assets	\$ 11,145,449	\$ 8,528,433	\$ 2,617,016	\$ -

The following table summarizes investments by ASC-820 levels as of June 30, 2009:

	Fair value	Level 1	Level 2	Level 3
Fixed income funds	\$ 4,885,407	\$ 4,885,407	\$ -	\$ -
Domestic equity funds	1,870,674	1,870,674	-	-
International equity funds	467,539	467,539	-	-
Land held for investment	36,000	-	36,000	-
Split interest agreements	2,492,461	-	2,492,461	-
Total financial assets	\$ 9,752,081	\$ 7,223,620	\$ 2,528,461	\$ -

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The return on the National Museum's investments is as follows:

<i>For the years ended June 30,</i>	2010	2009
Investment interest and dividends	\$ 212,148	\$ 278,561
Realized and unrealized gain (loss) on investments, net	573,557	(621,804)
	<u>\$ 785,705</u>	<u>\$ (343,243)</u>

Dividends and income are recorded as operating income. All other investment income is reported as gain or loss on investments, in the statement of activities.

NOTE 5

BENEFICIAL INTEREST IN SPLIT-INTEREST ARRANGEMENTS

Beneficial interest in split-interest arrangements consist of the following:

The National Museum is the trustee:

Charitable remainder trust, as of July 1, 2008	\$ 317,715
New agreements	113,132
Amortization of discount, valuation of payments to income beneficiaries, and trust income	101,229
Charitable remainder trust, as of July 1, 2009	532,076
Amortization of discount, valuation of payments to income beneficiaries, and trust income	12,860
Charitable remainder trust, as of June 30, 2010	<u>\$ 544,936</u>

Payout rates ranged between 6% and 8% for those assets held by the National Museum.

Assets held by others:

Charitable remainder trust, as of July 1, 2008	\$ 2,699,315
Termination of agreements	(157,842)
Amortization of discount and valuation of payments to income beneficiaries, and trust income	(567,874)
Other	(13,214)
Charitable remainder trust, as of July 1, 2009	1,960,385
Amortization of discount and valuation of payments to income beneficiaries, and trust income	75,695
Charitable remainder trust, as of June 30, 2010	<u>\$ 2,036,080</u>

Payout rates range between 5% and 8% for those held by others.

Combined summary:

Charitable remainder trust as of July 1, 2008	\$ 3,017,030
New agreements	113,132
Termination of agreements	(157,842)
Amortization of discount and valuation of payments to income to beneficiaries, and trust income	(466,645)
Other	(13,214)
Charitable remainder trust as of July 1, 2009	2,492,461
Amortization of discount and valuation of payments to income to beneficiaries, and trust income	88,555
Charitable remainder trust, as of June 30, 2010	<u>\$ 2,581,016</u>

The National Museum used a discount rate under internal revenue code section 7520 (a) of 3.2% and 3.4% to value all trust assets as of June 30, 2010 and 2009, respectively.

Included with charitable remainder trusts is real property. Real property market value was \$193,000 and \$206,000 as of June 30, 2010 and 2009. The

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remaining assets are invested in various institutional trust funds for which the underlying assets are generally traded in public or private markets and are reported at fair value. The charitable remainder trust amounts include vested and non-vested trusts, of which only the vested portions are recognized by the National Museum.

NOTE 6

HISTORIC BUILDING AND LAND

In February 1987, the National Museum entered into a 50-year lease at \$1 per year with the City of Los Angeles for the use of land and a 33,000 square foot building (the "Historic Building"). The National Museum restored the facility and opened it to the public in May 1992. In February 1997, the original lease was superseded by a new 55-year lease with the City of Los Angeles for the same property, as well as three adjacent parcels of land, the largest of which is the site of an 85,000 square foot expansion pavilion (the "Pavilion") which opened to the public in January 1999. In 2002, the lease was amended to provide an additional 5,000 square feet for use by the National Museum for the National Center. The present value of the building and land lease is \$8,342,978 and \$8,387,401 as of June 30, 2010 and 2009, respectively, based on an annual estimated lease expense of \$594,060 and a discount rate of 6.6%.

The Historic Building was expanded and renovated for the National Center with a \$20 million federal grant awarded in 2001. The construction was completed and the National Center was opened in October 2005. The federal government retains a reversionary interest in the building costs purchased under the grant. As such, the building costs paid with the funds received from the grant are not recorded on the National Museum's financial statements. However, the National Museum has been allowed to use the building rent free. Accordingly, the National Museum initially recorded the present value of the building rent of \$6,881,032 as a historic

building on the statement of financial position and as corresponding temporarily restricted contributions in the statement of activities for the year ended June 30, 2007, based upon an estimated annual rent expense of \$569,250 and a discount rate of 6.6%. A rent period of 25 years, which approximates the estimated useful life of the building, was used as there is no definitive time restriction for the National Museum's use of the building under the grant.

The present value of the historical building was \$6,371,498 and \$6,511,021 as of June 30, 2010 and 2009, respectively.

NOTE 7

PROPERTY AND EQUIPMENT

The major classes of property and equipment are as follows:

<i>As of June 30,</i>	2010	2009
Museum building	\$30,118,137	\$30,118,137
Exhibition and media development costs	3,702,682	3,702,682
Furniture, fixtures and equipment	2,714,137	2,714,137
Museum building improvements	319,433	319,433
Historic building improvements	1,487,643	1,487,643
	38,342,032	38,342,032
Less: Accumulated depreciation and amortization	(14,110,957)	(13,424,233)
Total fixed assets, net	\$24,231,075	\$24,917,799

Total depreciation expense recorded for the years ended June 30, 2010 and 2009 were \$686,724 and \$677,321, respectively.

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NOTE 8

DEBT OBLIGATIONS

Debt obligations are as follows:

<i>As of June 30,</i>	2010	2009
Unsecured 3-year term loan in amount of \$1,420,000 bearing interest at LIBOR plus 1.75% or bank's reference rate (2.10% and 2.07% as of June 30, 2010 and 2009, respectively). Monthly payments of \$39,444.44 originally due through February 2011. The National Museum was in compliance with required financial covenants. This note was paid off during the year ended June 30, 2010.	\$ -	\$ 688,889
Non-interest bearing note payable to the Community Redevelopment Agency of the City of Los Angeles ("CRA"), payments of \$65,000 and \$70,000 were scheduled to be due April 2009 and 2010 respectively. No collateral is required. At CRA's request, the note is to be extended to fiscal year 2011.	70,000	70,000
California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2000A, maturing August 1, 2030. Secured by full faith and credit of the National Museum; lien on gross revenues; and a pledge on real property and endowment assets. The National Museum was in compliance with required financial covenants.	8,105,000	8,340,000
Non-interest bearing note payable to the Community Redevelopment Agency of the City of Los Angeles, a total of \$15,000 of the principal balance of the note is forgiven each year.	127,500	142,500
Total notes payable and bonds payable	\$ 8,302,500	\$ 9,241,389

On June 15, 2000, the California Statewide Communities Development Authority (the "Issuer") sold \$10,000,000 of Variable Rate Demand Revenue Bonds (Japanese American National Museum), Series 2000A (the "Bonds"). The proceeds were loaned by the Issuer to the National Museum pursuant to a loan agreement and were used to (a) repay and retire an existing five-year term loan provided by a group of banks and (b) to pay a portion of costs of issuance of the bonds. The bonds have a variable interest rate, which is reset weekly. The rate in effect was 1.65% and 2.95% at June 30, 2010 and 2009, respectively.

Effective July 1, 2004, the National Museum executed a master agreement under the International Swap Dealers Association in anticipation of executing swap transactions to hedge the variable rate of the bonds. The notional amount of the swap is \$4,440,000 with a stated fixed rate of 4.08%. The agreement expires on July 1, 2014. In June 2009, the National Museum closed out this agreement by making final payments of \$327,000. The liability under this agreement was \$0 as of June 30, 2009.

A new master agreement was executed in January 2010. The new swap was effective June 1, 2010 and expires on June 2, 2014. The notional amount of the swap is \$5,000,000 with a stated fixed rate of \$2.28%. The liability resulting to the swap agreement was \$175,732 as of June 30, 2010 and is included with other liabilities on the statement of financial position.

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The aggregate future maturities of the notes payable and bonds payable are as follows:

<i>For the years ended June 30,</i>	
2011	\$ 330,000
2012	270,000
2013	285,000
2014	295,000
2015	305,000
Thereafter, through 2030	6,817,500
	\$ 8,302,500

NOTE 9

TEMPORARILY RESTRICTED NET ASSETS

The National Museum's temporarily restricted net assets consisted of the following:

<i>As of June 30,</i>	2010	2009
Grants and exhibitions, education, public programs and research	\$ 6,139,891	\$ 3,753,458
Grants and contributions for general operations pledged in future periods	355,915	638,378
Charitable remainder trusts and gift annuities	2,067,573	1,741,100
Board fund	-	111,097
Building and land lease	8,342,978	8,387,401
Historical building	6,371,498	6,511,021
	\$23,277,855	\$21,142,455

NOTE 10

ENDOWMENT

The National Museum's endowment consists of its beneficial interest in split interest agreements held by others and one investment fund and four unified pool of investments managed by the National Museum established to support its operations and programs. Its endowment is only donor-restricted endowment funds and as of June 30, 2010 and 2009 there were no funds designated by the Board of

Trustees (the "Board") to function as endowments. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In August, 2008, FASB issued ASC 958, "*Not-for-Profit Entities*" ("ASC 958") formerly FSP 117-1 "Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. In January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") (hereafter referred to as SPMIFA). The disclosure provision of ASC 958 was applied by the National Museum for the years ended June 30, 2010 and 2009.

Interpretation of relevant law:

The Board has interpreted SPMIFA 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. The Board has further interpreted this to mean that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

As a result of this interpretation, the National 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

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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 National Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the National Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the National Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the National Museum
- (7) The investment policies of the National Museum

Return objectives and risk parameters:

It is the purpose of the National Museum's endowment fund to secure the future of the National Museum and to support its programs and operations as designated by the Board

The primary long-term financial objective is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the Endowment through a prudent long-term investment strategy. This objective should be achieved over a rolling three, five, and ten-year periods on a total return basis. An additional objective is to provide a relatively predictable, stable and (in real terms) constant stream of current income for the National Museum's annual operating needs.

The primary investment objective of the Endowment is to earn an average annual minimum nominal return of 8% per year and a real total return of at

least 5% per year, net of management fees, over the long-term (rolling three, five and ten-year periods). The National Museum considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for that having the lowest risk.

Strategies employed for achieving objectives:

The National Museum manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year – not favoring returns from one source over another.

The National Museum has determined that marketable debt and equity securities traded in the United States are appropriate investments consistent with its return objectives and risk parameters. Cash invested in money market accounts is also an acceptable investment within these guidelines. The investment portfolio is to be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

Spending policy and how the investment objectives relate to spending policy:

The National Museum has a policy governing the amount of endowment earnings that can be released annually for spending, consistent with the restrictions, if any, placed on the endowment by donors. The spending policy authorizes an annual distribution equal to 5% of the average market value of the portfolios as of the four preceding calendar quarters, subject to the requirement that the portfolios increase by an inflation factor annually.

In establishing this policy, the National Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the National Museum expects the current spending policy to allow its endowment to grow at an amount that will at least keep pace with expected inflation.

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Summary of endowment fund balances and activity:

Endowment net asset composition by type of fund and changes in these net assets are as follows as of and for the years ended June 30, 2010 and 2009.

<i>As of June 30,</i>	2010	2009
For general operating purposes	\$ 1,946,577	\$ 1,896,578
For Nikkei Legacy program	3,000,000	3,000,000
For humanities programs	1,000,000	1,000,000
For artistic programs	2,583,826	2,446,079
	\$ 8,530,403	\$ 8,342,657

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Endowment Net Asset Composition by Type of Fund consists of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>As of June 30, 2009</i>				
Donor-designated endowment fund	\$ (543,080)	\$ (8,427)	\$ 8,342,657	\$ 7,791,150
Board-designated endowment fund	-	-	-	-
Total endowment funds	\$ (543,080)	\$ (8,427)	\$ 8,342,657	\$ 7,791,150
<i>As of June 30, 2010</i>				
Donor-designated endowment fund	\$ (360,042)	\$ 318,401	\$ 8,530,403	\$ 8,488,762
Board-designated endowment fund	-	-	-	-
Total endowment funds	\$ (360,042)	\$ 318,401	\$ 8,530,403	\$ 8,488,762

Change in Endowment Net Assets consists of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	\$ (327,383)	\$ 65,827	\$ 8,935,916	\$ 8,674,360
Investment return:				
Investment income	52,113	190,621	35,828	278,562
Net depreciation - realized and unrealized - fair value of investment	(267,810)	(169,875)	(184,119)	(621,804)
Total investment return	(215,697)	20,746	(148,291)	(343,242)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(95,000)	-	(95,000)
Other, primarily released from restrictions and redesignations	-	-	(444,968)	(444,968)
Endowment net assets, July 1, 2009	(543,080)	(8,427)	8,342,657	7,791,150
Investment return:				
Investment income	43,742	138,333	30,073	212,148
Net appreciation - realized and unrealized - fair value of investment	139,296	338,495	107,673	585,464
Total investment return	183,038	476,828	137,746	797,612
Contributions	-	-	50,000	50,000
Appropriation of endowment assets for expenditure	-	(150,000)	-	(150,000)
Other, primarily released from restrictions and redesignations	-	-	-	-
Endowment net assets, June 30, 2010	\$ (360,042)	\$ 318,401	\$ 8,530,403	\$ 8,488,762

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NOTE 11

EMPLOYEE BENEFIT PLAN

The National Museum has a defined contribution retirement plan covering substantially all of its employees. The Board annually determines the amount to be contributed to the plan. Participants are fully vested after five years of service. The National Museum made contributions of \$29,163 and \$29,683 to the plan during the years ended June 30, 2010 and 2009, respectively.

NOTE 12

EXPENSES BY FUNCTIONAL CLASSIFICATION

Operating expenses, interest on long-term debt, valuation of swap agreement, depreciation and amortization of fixed assets, and building and land lease and rent expenses by functional classification consisted of the following:

<i>For the year ending June 30,</i>	2010	2009
Program services	\$ 4,953,915	\$ 6,120,662
Fundraising and development	650,668	722,837
Management and general	735,191	948,953
	\$ 6,339,774	\$ 7,792,452

<i>For the year ending June 30,</i>	2010	2009
Operating expenses	\$ 4,152,100	\$ 5,489,596
Interest expense	161,908	344,220
Valuation of swap agreement	175,732	118,005
Depreciation	686,724	677,321
Building	1,163,310	1,163,310
	\$ 6,339,774	\$ 7,792,452

NOTE 13

BORROWING FROM THE ENDOWMENT

In a prior year, the Board of Trustees approved a long-term borrowing up to \$2,000,000 from the National Museum's endowment funds. Per authorized agreements with donors, the National Museum can borrow up to \$1,000,000 from the artistic endowment funds and \$1,000,000 from general endowment funds. As of June 30, 2008, the National Museum had borrowed \$1,850,000 from the endowment fund. The National Museum paid \$675,000 and \$200,000 to the endowment for the year ending June 30, 2010 and 2009, respectively. As of June 30, 2010 and 2009, the borrowed balance was \$975,000 and \$1,650,000, respectively. The borrowed funds are being utilized for working capital. The repayment plan also provides that the loan accrues interest at a rate of 4.25% per year accrued monthly on the outstanding balance. The interest accrued on the outstanding endowment funds borrowed is \$377,451 and \$311,577, as of June 30, 2010 and 2009, respectively. The inter-fund transactions have been eliminated in the financial statements.