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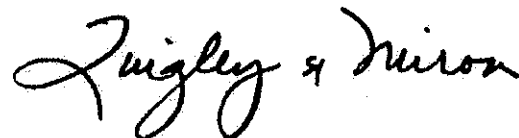
INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Japanese American National Museum
Los Angeles, California

We have audited the accompanying statement of financial position of Japanese American National Museum (National Museum), a nonprofit corporation, as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the National Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the National Museum as of June 30, 2010 were audited by other auditors whose report dated October 27, 2010 expressed an unqualified opinion on those statements.

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 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 audit provides 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 Japanese American National Museum as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California
October 21, 2011

JAPANESE AMERICAN NATIONAL MUSEUM
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 2,046,846	\$ 1,503,258
Restricted cash	79,010	86,156
Inventories, net	166,537	162,451
Pledges and grants receivable, net--Note 2	2,381,781	2,766,232
Investments--Note 3	10,967,918	8,528,433
Land held for investment	36,000	36,000
Beneficial interest in split-interest arrangements--Note 4	2,480,659	2,581,016
Building and land lease--Note 5	8,295,975	8,342,978
Historic building--Note 5	6,222,767	6,371,498
Other assets	308,699	247,661
Property and equipment, net--Note 6	23,558,399	24,231,075
Capitalized bond issuance costs, net	212,917	223,563
TOTAL ASSETS	<u><u>\$ 56,757,508</u></u>	<u><u>\$ 55,080,321</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 437,597	\$ 426,869
Notes and bonds payable--Note 7	7,972,500	8,302,500
Other liabilities	187,116	175,732
Gift annuity and planned giving liabilities	280,097	277,858
TOTAL LIABILITIES	<u>8,877,310</u>	<u>9,182,959</u>
 NET ASSETS		
Unrestricted	18,460,234	14,089,104
Temporarily restricted--Note 8	20,797,386	23,277,855
Permanently restricted--Note 9	8,622,578	8,530,403
TOTAL NET ASSETS	<u>47,880,198</u>	<u>45,897,362</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 56,757,508</u></u>	<u><u>\$ 55,080,321</u></u>

See notes to financial statements.

JAPANESE AMERICAN NATIONAL MUSEUM
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT				
Contributions and grant income, net of provision for doubtful accounts of \$174,288	\$ 1,378,184	\$ 2,291,057	\$	\$ 3,669,241
Contribution of use of historic building and land	967,576			967,576
Valuation of beneficial interest in split-interest arrangements	16,759	100,760	26,980	144,499
Membership fees	751,532			751,532
Special events, net of direct costs of \$356,296	1,084,659			1,084,659
REVENUE				
Admissions	148,564			148,564
Museum store, net of cost of goods sold of \$179,527	148,337			148,337
Investment income	1,795	199,547		201,342
Realized and unrealized gain on investments, net	197,009	618,516	65,195	880,720
Other revenue	370,415			370,415
Net assets released from restrictions	5,690,349	(5,690,349)		
TOTAL SUPPORT AND REVENUE	<u>10,755,179</u>	<u>(2,480,469)</u>	<u>92,175</u>	<u>8,366,885</u>
EXPENSES				
Program services	4,938,801			4,938,801
Management and general	553,397			553,397
Fundraising and development	891,851			891,851
TOTAL EXPENSES	<u>6,384,049</u>			<u>6,384,049</u>
CHANGE IN NET ASSETS	4,371,130	(2,480,469)	92,175	1,982,836
NET ASSETS AT BEGINNING OF YEAR	<u>14,089,104</u>	<u>23,277,855</u>	<u>8,530,403</u>	<u>45,897,362</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,460,234</u>	<u>\$ 20,797,386</u>	<u>\$ 8,622,578</u>	<u>\$ 47,880,198</u>

See notes to financial statements.

JAPANESE AMERICAN NATIONAL MUSEUM
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT				
Contributions and grant income, net of provision for doubtful accounts of \$119,154	\$ 541,197	\$ 3,792,742	\$ 50,000	\$ 4,383,939
Contribution of use of historic building and land	979,364			979,364
Valuation of beneficial interest in split-interest arrangements	351	83,232	11,907	95,490
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 \$359,510	45,207			45,207
Investment income	43,742	138,333	30,073	212,148
Realized and unrealized gain on investments, net	139,296	338,495	95,766	573,557
Other revenue	285,857	54,536		340,393
Net assets released from restrictions	2,271,938	(2,271,938)		
TOTAL SUPPORT AND REVENUE	6,222,872	2,135,400	187,746	8,546,018
EXPENSES				
Program services	4,953,915			4,953,915
Management and general	735,191			735,191
Fundraising and development	650,668			650,668
TOTAL EXPENSES	6,339,774			6,339,774
CHANGE IN NET ASSETS	(116,902)	2,135,400	187,746	2,206,244
NET ASSETS AT BEGINNING OF YEAR	14,206,006	21,142,455	8,342,657	43,691,118
NET ASSETS AT END OF YEAR	\$ 14,089,104	\$ 23,277,855	\$ 8,530,403	\$ 45,897,362

See notes to financial statements.

JAPANESE AMERICAN NATIONAL MUSEUM
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,982,836	\$ 2,206,244
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	672,676	686,724
Amortization of forgivable debt	(15,000)	(15,000)
Net realized and unrealized gain on investment	(880,720)	(779,811)
Valuation of swap agreement	11,384	175,732
Valuation of beneficial interest in split-interest arrangements	100,357	(95,490)
Provision for uncollectible pledges	174,288	100,744
Provision for obsolete inventory	2,299	110,284
Donated common stock	(506,629)	
Changes in operating assets and liabilities		
(Increase) decrease in restricted cash	7,146	(28,927)
(Increase) decrease in inventories	(6,385)	33,475
(Increase) decrease in pledges and grants receivable	210,163	(922,085)
Decrease in leased historic building and land	195,734	183,946
Increase in other assets	(50,392)	(168,881)
(Decrease) increase in accounts payable and accrued expenses	10,728	(166,313)
Increase in gift annuity and planned giving liabilities	2,239	17,418
CASH PROVIDED BY OPERATING ACTIVITIES	1,910,724	1,338,060
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments in securities	150,000	150,000
Purchases of investments in securities	(1,202,136)	(668,065)
CASH USED IN INVESTING ACTIVITIES	(1,052,136)	(518,065)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term loan		(688,889)
Payments on Community Redevelopment Agency note	(70,000)	
Payment of bond principal	(245,000)	(235,000)
CASH USED IN FINANCING ACTIVITIES	(315,000)	(923,889)
NET INCREASE (DECREASE) IN CASH	543,588	(103,894)
CASH AT BEGINNING OF YEAR	1,503,258	1,607,152
CASH AT END OF YEAR	\$ 2,046,846	\$ 1,503,258
 SUPPLEMENTARY DISCLOSURES		
Income taxes paid	\$	\$
Interest paid	\$ 232,642	\$ 159,276

See notes to financial statements.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization--The Japanese American National Museum (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 sharing the Japanese American experience. 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.

Financial statement presentation--The financial statements of the National Museum have been prepared on the accrual basis of accounting, in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP).

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.

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

Contributions--Contributions 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 temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the 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 for determined risk. The amortization of the discount is included in general support.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES--Continued

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 amounts expended in excess of reimbursements are reported as grants receivable.

Investment gain (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 are 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 National 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--The fair value of the National Museum's financial instruments as of June 30, 2011 and 2010 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 circumstances as further detailed in note 4 to the financial statements.

Fair value measurements--Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 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.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES--Continued

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's allowance for excess and obsolete inventory amounted to \$71,373 and \$69,074 at June 30, 2011 and 2010, respectively.

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.

Land held for investment--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 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 arrangements--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 as 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 2.8% and 3.2% at June 30, 2011 and 2010, 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 \$186,851 and \$192,086 at June 30, 2011 and 2010, 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, 2011 and 2010.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES--Continued

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 \$21,623 at June 30, 2011 and 2010, 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 these 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 historical significance that are held for educational and curatorial purposes. Each item is catalogued, 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 costs--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 Topic 740, *Income Taxes*, an organization must evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions using the guidance of ASC Topic 450, *Contingencies*, and has concluded that a provision for a tax liability is not necessary at June 30, 2011 and 2010.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES--Continued

Contributed services--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, 2011 and 2010, 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 of Trustees (Board) govern the National Museum's investments in securities to achieve diversification of the portfolio.

The receivables due from major donors as a percentage of total pledges and grants receivable at June 30, 2011 and 2010 are as follows:

	2011	2010
Donor 1	34%	47%
Donor 2	10%	13%
Donor 3	7%	9%
Donor 4	6%	7%

As of June 30, 2011 and 2010, there were four related party receivables from current board members that made up 3% and 20%, respectively, of total pledges and grant receivables.

One donor comprised 26% and 41%, respectively, of total contributions and grant revenue for the years ended June 30, 2011 and 2010.

Reclassifications--Certain amounts in 2010 have been reclassified to conform with the 2011 financial statement presentation.

JAPANESE AMERICAN NATIONAL MUSEUM
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 2--PLEDGES AND GRANTS RECEIVABLE

The National Museum has the following pledges and grants receivable at June 30, 2011 and 2010:

	2011	2010
Due within 1 year	\$ 1,485,459	\$ 1,439,869
Due within 2 to 5 years	1,274,739	1,752,429
Due after 5 years	150,000	165,000
GROSS	2,910,198	3,357,298
Less:		
Present value discount	(205,446)	(275,133)
Allowance for doubtful accounts	(322,971)	(315,933)
NET	\$ 2,381,781	\$ 2,766,232

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, 2011 and 2010.

NOTE 3--INVESTMENTS

Investments consist of the following as of June 30, 2011 and 2010:

	2011	2010
Fixed income funds	\$ 6,259,082	\$ 5,408,557
Domestic equity funds	3,669,893	2,581,140
Domestic common stock	343,598	
International equity fund	695,345	538,736
TOTALS	\$ 10,967,918	\$ 8,528,433

Investments are valued at fair market value and are considered to be Level I assets for ASC 820 purposes at June 30, 2011 and 2010.

Return on investments is as follows:

	2011	2010
Investment interest and dividends	\$ 199,547	\$ 212,148
Realized and unrealized gain on investments, net	880,720	573,557
TOTALS	\$ 1,080,267	\$ 785,705

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

JAPANESE AMERICAN NATIONAL MUSEUM
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 4--BENEFICIAL INTEREST IN SPLIT-INTEREST ARRANGEMENTS

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

	The National Museum as Trustee	Assets held by others	Total
Charitable Remainder Trust at June 30, 2009	\$ 532,076	\$ 1,960,385	\$ 2,492,461
Amortization of discount, valuation of payments to income, valuation of payments to income beneficiaries, and trust income	12,860	75,695	88,555
Charitable Remainder Trust at June 30, 2010	544,936	2,036,080	2,581,016
Termination of agreements		(241,201)	(241,201)
Amortization of discount, valuation of payments to income, valuation of payments to income beneficiaries, and trust income	25,850	114,994	140,844
CHARITABLE REMAINDER TRUST AT JUNE 30, 2011	\$ 570,786	\$ 1,909,873	\$ 2,480,659

Payout rates ranged between 6% and 8% for those assets held by the National Museum and 5% and 8% for assets held by others.

The National Museum used a discount rate under Internal Revenue Code section 7520 (a) of 2.8% and 3.2% to value all trust assets as of June 30, 2011 and 2010, respectively. Included with charitable remainder trusts is real property. Real property market value was \$177,800 and \$193,000 as of June 30, 2011 and 2010, respectively. The 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 5--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 (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 (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 \$8,295,975 and \$8,342,978 as of June 30, 2011 and 2010, respectively, based on an annual estimated lease expense of \$594,060 and a discount rate of 6.6%.

JAPANESE AMERICAN NATIONAL MUSEUM
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 5--HISTORIC BUILDING AND LAND--Continued

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 \$6,222,767 and \$6,371,498 as of June 30, 2011 and 2010, respectively.

NOTE 6--PROPERTY AND EQUIPMENT, NET

The major classes of property and equipment, net at June 30, 2011 and 2010 are as follows:

	2011	2010
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
	<u>38,342,032</u>	<u>38,342,032</u>
Less: accumulated depreciation and amortization	<u>(14,783,633)</u>	<u>(14,110,957)</u>
TOTALS	<u>\$ 23,558,399</u>	<u>\$ 24,231,075</u>

Total depreciation expense recorded for the years ended June 30, 2011 and 2010 was \$672,676 and \$686,724, respectively.

JAPANESE AMERICAN NATIONAL MUSEUM
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 7—NOTES AND BONDS PAYABLE

Notes and bonds payable as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2000A, maturing August 1, 2030. Secured by the 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.	\$ 7,860,000	\$ 8,105,000
Non-interest bearing note payable to the Community Redevelopment Agency of the City of Los Angeles (CRA) with \$15,000 of principal balance forgiven each year.	112,500	127,500
Non-interest bearing note payable to the CRA. This note was paid off in June 2011.		70,000
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, 2011 and 2010 respectively). Monthly payments of \$39,444.44 originally due through February 2011. The National Museum was in compliance with required financial covenants. The note was paid off during the year ended June 30, 2010.		
TOTALS	<u>\$ 7,972,500</u>	<u>\$ 8,302,500</u>

On June 15, 2000, the California Statewide Communities Development Authority (Issuer) sold \$10,000,000 of Variable Rate Demand Revenue Bonds (Japanese American National Museum), Series 2000A (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 effective rate at June 30, 2011 and 2010 was 1.58% and 1.65%, respectively.

In January 2010, 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. Effective June 1, 2010, a swap was executed in the notional amount of \$5,000,000 with a stated fixed rate of 2.28%, which expires on June 2, 2014. The liability resulting to the swap agreement was \$187,116 and \$175,732 as of June 30, 2011 and 2010, respectively, and is included with other liabilities on the statement of financial position. The aggregate future maturities of notes payable and bonds payable are as follows:

For the year ended June 30,	
2012	\$ 270,000
2013	285,000
2014	295,000
2015	305,000
2016	320,000
Thereafter	<u>6,497,500</u>
TOTAL	<u>\$ 7,972,500</u>

JAPANESE AMERICAN NATIONAL MUSEUM
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 8--TEMPORARILY RESTRICTED NET ASSETS

The National Museum's temporarily restricted net assets as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Grants and exhibitions, education, public programs and research	\$ 3,528,858	\$ 6,139,891
Grants and contributions pledged in future periods	22,492	355,915
Charitable remainder trusts and gift annuities	1,982,441	2,067,573
Board fund	744,853	
Building and land lease	8,295,975	8,342,978
Historic Building	6,222,767	6,371,498
TOTALS	<u>\$ 20,797,386</u>	<u>\$ 23,277,855</u>

NOTE 9--PERMANENTLY RESTRICTED NET ASSETS

The National Museum's endowment consists of its beneficial interest in split-interest agreements held by others, and one investment fund and four unified pools of investments managed by the National Museum established to support its operations and programs. The endowment comprises donor-restricted endowment funds only, and as of June 30, 2011 and 2010 there were no funds designated by 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*. The disclosure provision of ASC 958 was applied by the National Museum for the years ended June 30, 2011 and 2010.

Interpretation of relevant law--In January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires 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 is aware 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 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 UPMIFA.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 9--PERMANENTLY RESTRICTED NET ASSETS--Continued

In accordance with UPMIFA, 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 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 those 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.

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 9--PERMANENTLY RESTRICTED NET ASSETS--Continued

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, 2011 and 2010:

	2011	2010
General operating purposes	\$ 1,946,577	\$ 1,946,577
Nikkei Legacy program	3,000,000	3,000,000
Humanities programs	1,000,000	1,000,000
Artistic programs	2,676,001	2,583,826
TOTALS	\$ 8,622,578	\$ 8,530,403

Change in endowment net assets consists of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2009	\$ (543,080)	\$ (8,427)	\$ 8,342,657	\$ 7,791,150
Investment income	43,742	138,333	30,073	212,148
Change in value of split-interest agreements			11,907	11,907
Net realized and unrealized gain on investments	139,296	338,495	95,766	573,557
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)
Endowment Net Assets at June 30, 2010	(360,042)	318,401	8,530,403	8,488,762
Investment income		199,547		199,547
Change in value of split-interest agreements			26,980	26,980
Net realized and unrealized gain on investments	360,042	618,516	65,195	1,043,753
Total Investment Return	360,042	818,063	92,175	1,270,280
Appropriation of endowment assets for expenditure		(385,285)		(385,285)
ENDOWMENT NET ASSETS AT JUNE 30, 2011	\$	\$ 751,179	\$ 8,622,578	\$ 9,373,757

JAPANESE AMERICAN NATIONAL MUSEUM
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 10--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 \$24,180 and \$29,163 to the plan during the years ended June 30, 2011 and 2010, respectively.

NOTE 11--SUBSEQUENT EVENTS

Subsequent events were evaluated through October 21, 2011, which is the date the financial statements were available to be issued.