

**Audited Financial Statements**



JAPANESE AMERICAN NATIONAL MUSEUM

**June 30, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
**Japanese American National Museum**  
Los Angeles, California

We have audited the accompanying financial statements of Japanese American National Museum (National Museum), a nonprofit organization, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the 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.

### Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Japanese American National Museum as of June 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Los Angeles, California  
October 14, 2014

**Japanese American National Museum  
Statements of Financial Position  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,184,446	\$ 2,853,112
Restricted cash: gift annuities	58,441	65,307
Inventories, net	192,083	183,218
Pledges and grants receivable, net—Note 2	610,991	796,500
Investments—Note 3	12,837,318	11,785,013
Land held for investment	36,000	36,000
Beneficial interest in split-interest arrangements—Note 4	2,256,689	2,093,035
Building and land lease—Note 6	8,137,732	8,193,540
Historic Building—Note 6	5,715,042	5,895,208
Other assets	358,728	511,423
Property and equipment, net—Note 7	21,876,277	22,375,925
Capitalized bond issuance costs, net	180,979	191,625
Artifact collection—Note 1		
<b>Total Assets</b>	<b><u>\$ 54,444,726</u></b>	<b><u>\$ 54,979,906</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 559,340	\$ 464,994
Notes and bonds payable—Note 8	4,532,500	5,482,500
Other liabilities	250,000	203,378
Gift annuities and planned giving liabilities	252,372	255,802
<b>Total Liabilities</b>	<b>5,594,212</b>	<b>6,406,674</b>
<b>Net Assets</b>		
Unrestricted	21,583,359	21,617,081
Temporarily restricted—Note 9	18,457,580	18,282,062
Permanently restricted—Note 10	8,809,575	8,674,089
<b>Total Net Assets</b>	<b><u>48,850,514</u></b>	<b><u>48,573,232</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 54,444,726</u></b>	<b><u>\$ 54,979,906</u></b>

See notes to financial statements.

**Japanese American National Museum  
Statement of Activities  
Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support</b>				
Contributions and grant income	\$ 1,763,619	\$ 404,306	\$ 100,093	\$ 2,268,018
Contribution of use of Historic Building and land	927,336			927,336
Valuation of beneficial interest in split-interest arrangements		124,825	35,393	160,218
Membership fees	684,622			684,622
Special events, net of direct costs of \$283,976	984,397			984,397
<b>Revenue</b>				
Admissions	208,128			208,128
Museum store, net of cost of goods sold of \$234,875	228,001			228,001
Dividend and interest income	22,446	224,688		247,134
Realized and unrealized gain on investments	384,520	950,672		1,335,192
Other revenue	552,298			552,298
<b>Total Support and Revenue Before Reclassifications</b>	<b>5,755,367</b>	<b>1,704,491</b>	<b>135,486</b>	<b>7,595,344</b>
<b>Reclassifications</b>				
Net assets released from restrictions	1,528,973	(1,528,973)		
<b>Total Support and Revenue After Reclassifications</b>	<b>7,284,340</b>	<b>175,518</b>	<b>135,486</b>	<b>7,595,344</b>
<b>Expenses</b>				
Program services	5,437,695			5,437,695
Management and general	1,063,739			1,063,739
Fundraising and development	816,628			816,628
<b>Total Expenses</b>	<b>7,318,062</b>			<b>7,318,062</b>
<b>Change in Net Assets</b>	<b>(33,722)</b>	<b>175,518</b>	<b>135,486</b>	<b>277,282</b>
<b>Net Assets at Beginning of Year</b>	<b>21,617,081</b>	<b>18,282,062</b>	<b>8,674,089</b>	<b>48,573,232</b>
<b>Net Assets at End of Year</b>	<b>\$ 21,583,359</b>	<b>\$ 18,457,580</b>	<b>\$ 8,809,575</b>	<b>\$ 48,850,514</b>

See notes to financial statements.

**Japanese American National Museum  
Statement of Activities  
Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support</b>				
Contributions and grant income	\$ 783,589	\$ 2,335,615	\$ 10,000	\$ 3,129,204
Contribution of use of Historic Building and land	941,616			941,616
Valuation of beneficial interest in split-interest arrangements		497,602	24,617	522,219
Membership fees	666,021			666,021
Special events, net of direct costs of \$279,539	1,029,117			1,029,117
<b>Revenue</b>				
Admissions	204,106			204,106
Museum store, net of cost of goods sold of \$241,963	201,926			201,926
Dividend and interest income	62,296	232,922		295,218
Realized and unrealized gain on investments	228,647	508,129		736,776
Other revenue	387,321			387,321
<b>Total Support and Revenue Before Reclassifications</b>	<b>4,504,639</b>	<b>3,574,268</b>	<b>34,617</b>	<b>8,113,524</b>
<b>Reclassifications</b>				
Net assets released from restrictions	5,075,029	(5,075,029)		
<b>Total Support and Revenue After Reclassifications</b>	<b>9,579,668</b>	<b>(1,500,761)</b>	<b>34,617</b>	<b>8,113,524</b>
<b>Expenses</b>				
Program services	4,690,290			4,690,290
Management and general	1,053,261			1,053,261
Fundraising and development	814,196			814,196
<b>Total Expenses</b>	<b>6,557,747</b>			<b>6,557,747</b>
<b>Change in Net Assets</b>	<b>3,021,921</b>	<b>(1,500,761)</b>	<b>34,617</b>	<b>1,555,777</b>
<b>Net Assets at Beginning of Year</b>	<b>18,595,160</b>	<b>19,782,823</b>	<b>8,639,472</b>	<b>47,017,455</b>
<b>Net Assets at End of Year</b>	<b>\$ 21,617,081</b>	<b>\$ 18,282,062</b>	<b>\$ 8,674,089</b>	<b>\$ 48,573,232</b>

See notes to financial statements.

**Japanese American National Museum  
Statement of Functional Expenses  
Year Ended June 30, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<b>Expenses</b>				
Salaries	\$ 1,293,165	\$ 343,167	\$ 456,067	\$ 2,092,399
Payroll taxes	93,803	23,826	30,253	147,882
Other employee benefits	187,693	50,381	46,413	284,487
<b>Total Personnel Expenses</b>	<b>1,574,661</b>	<b>417,374</b>	<b>532,733</b>	<b>2,524,768</b>
Facility and parking rental	1,170,676	67,122	34,008	1,271,806
Contracted services	503,010	131,446	26,051	660,507
Depreciation	618,655	26,929	18,262	663,846
Professional fees	339,226	147,320	54,268	540,814
Utilities	387,482	21,139	11,439	420,060
Travel, meetings, and memberships	255,958	76,754	48,474	381,186
Supplies, materials, and equipment	256,585	31,145	51,818	339,548
Insurance	64,285	61,652	1,606	127,543
Interest	77,357	9,732	2,284	89,373
Postage and delivery	58,436	4,147	22,050	84,633
Telephone	54,271	6,345	1,942	62,558
Bank and merchant fees	29,098	17,894	5,829	52,821
Advertising	34,362	8,335	1,760	44,457
Taxes, licenses, permits, and fees	11,829	19,135	3,880	34,844
Other expenses	1,804	17,270	224	19,298
<b>Total Expenses</b>	<b>\$ 5,437,695</b>	<b>\$ 1,063,739</b>	<b>\$ 816,628</b>	<b>\$ 7,318,062</b>

See notes to financial statements.

**Japanese American National Museum  
Statement of Functional Expenses  
Year Ended June 30, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<b>Expenses</b>				
Salaries	\$ 1,121,464	\$ 325,340	\$ 468,676	\$ 1,915,480
Payroll taxes	84,774	24,768	35,424	144,966
Other employee benefits	170,364	61,551	50,110	282,025
<b>Total Personnel Expenses</b>	<b>1,376,602</b>	<b>411,659</b>	<b>554,210</b>	<b>2,342,471</b>
Facility and parking rental	1,172,485	67,584	34,321	1,274,390
Contracted services	356,361	97,626	49,857	503,844
Depreciation	591,132	25,731	17,450	634,313
Professional fees	199,204	157,348	27,179	383,731
Utilities	339,162	14,054	10,013	363,229
Travel, meetings, and memberships	109,405	71,971	18,096	199,472
Supplies, materials, and equipment equipment	134,032	26,978	61,223	222,233
Insurance	57,085	62,641	1,589	121,315
Interest	113,716	7,960	3,357	125,033
Postage and delivery	70,162	1,701	20,194	92,057
Telephone	39,699	5,015	1,357	46,071
Bank and merchant fees	25,438	19,539	10,964	55,941
Advertising	31,806	15,147	597	47,550
Taxes, licenses, permits, and fees	70,581	51,016	3,714	125,311
Other expenses	3,420	17,291	75	20,786
<b>Total Expenses</b>	<b>\$ 4,690,290</b>	<b>\$ 1,053,261</b>	<b>\$ 814,196</b>	<b>\$ 6,557,747</b>

See notes to financial statements.

**Japanese American National Museum**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operations</b>		
Change in net assets	\$ 277,282	\$ 1,555,777
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	663,846	634,313
Amortization of forgivable debt	(15,000)	(15,000)
Net realized and unrealized gain on investment	(1,335,192)	(736,776)
Valuation of swap agreement	(75,139)	(75,464)
Valuation of beneficial interest in split-interest arrangements	(163,654)	202,048
Permanently restricted contributions	(100,093)	
Changes in operating assets and liabilities		
Decrease in restricted cash: gift annuities	6,866	6,948
(Increase) decrease in inventories, net	(8,865)	1,053
Decrease in pledges and grants receivable, net	185,509	681,135
Decrease in leased Historic Building and land lease	235,974	221,694
(Increase) decrease in other assets	152,695	(199,689)
Decrease in capitalized bond issuance costs, net	10,646	10,646
Increase (decrease) in accounts payable and accrued expenses	94,346	(8,746)
Increase in other liabilities	121,761	77,930
Decrease in gift annuities and planned giving liabilities	(3,430)	(8,792)
<b>Cash Provided by Operating Activities</b>	<b>47,552</b>	<b>2,347,077</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(164,198)	(100,017)
Purchases of investments in securities	(677,367)	(3,948,375)
Proceeds from sales of investments in securities	960,254	3,922,088
<b>Cash Provided by (Used in) Investing Activities</b>	<b>118,689</b>	<b>(126,304)</b>
<b>Cash Flows from Financing Activities</b>		
Permanently restricted contributions	100,093	
Payment of bond principal	(935,000)	(2,205,000)
<b>Cash Used in Financing Activities</b>	<b>(834,907)</b>	<b>(2,205,000)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(668,666)</b>	<b>15,773</b>
<b>Cash at Beginning of Year</b>	<b>2,853,112</b>	<b>2,837,339</b>
<b>Cash at End of Year</b>	<b>\$ 2,184,446</b>	<b>\$ 2,853,112</b>
<b>Supplementary Disclosures</b>		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$ 73,334</u>	<u>\$ 109,209</u>

See notes to financial statements.



**Japanese American National Museum**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**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.

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.

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.

Income Taxes—The Internal Revenue Service (IRS) 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.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 1—Organization and Summary of Significant Accounting Policies—Continued**

Accounting standards require an organization to 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 and has concluded that a provision for a tax liability is not necessary at June 30, 2014 and 2013. Generally, the National Museum's information returns remain open for examination for three (federal) or four (state of California) years from the date of filing.

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 institutions, with original maturities of three months or less from the date of purchase.

Restricted Cash: Gift Annuities—Restricted cash: gift annuities 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's 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 \$71,373 at June 30, 2014 and 2013, respectively.

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 where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash held in investment accounts at investment custodians are insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000. At times, in the normal course of business, such cash balances are in excess of the FDIC/SIPC insurance limits, but management deems the risk of loss due to these concentrations to be minimal. 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Donor 1	46%	46%
Donor 2	23%	40%
Donor 3	9%	8%

During the year ended June 30, 2013, one donor contributed 36% of total contributions and grant income.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 1—Organization and Summary of Significant Accounting Policies—Continued**

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

Fair Value of Financial Instruments—The fair value of the National Museum's financial instruments as of June 30, 2014 and 2013 represents 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 5 to the financial statements.

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 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 1.2% and 1.2% at June 30, 2014 and 2013, 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 \$165,524 and \$166,555 at June 30, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013, respectively.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 1—Organization and Summary of Significant Accounting Policies—Continued**

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 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.

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.

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.

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.

Membership fees—Membership fees are recognized as revenue when such income is received.

Admissions—Revenues from service revenue are recognized at the time services are provided.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 1—Organization and Summary of Significant Accounting Policies—Continued**

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.

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.

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. The National Museum values benefits, primarily the meals and entertainment, at the actual cost.

Contributed Services—A substantial number of unpaid volunteers have made significant contributions of their time and services to further the National Museum’s mission. During the years ended June 30, 2014 and 2013, these in-kind contributions amounted to over 30,000 and 33,000 volunteer hours, valued at approximately \$600,000 and \$660,000, respectively. These amounts are not reflected in these financial statements as the recognition criteria under GAAP were not met.

Functional Expenses—The costs of providing the various program and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been directly charged to the program services and supporting services benefitted. Indirect costs are allocated between program services, management and general, and fundraising expenses, based on an analysis of personnel time utilized for the related activities.

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.

Reclassifications—Certain amounts in 2013 have been reclassified to conform with the 2014 financial statement presentation.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 2—Pledges and Grants Receivable, Net**

Net pledges and grants receivable at June 30, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>
Due within 1 year	\$ 365,363	\$ 490,125
Due within 2 to 5 years	330,825	410,000
<b>Gross</b>	<b>696,188</b>	<b>900,125</b>
Less:		
Present value discount	(22,697)	(33,625)
Allowance for doubtful accounts	(62,500)	(70,000)
<b>Net</b>	<b>\$ 610,991</b>	<b>\$ 796,500</b>

The present value of estimated future cash flows on unconditional promises to give was determined using a discount rate of 5% for the years ended June 30, 2014 and 2013.

**Note 3—Investments**

Investments consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fixed income funds	\$ 6,420,052	\$ 6,045,704
Domestic equity funds	5,456,805	4,953,567
International equity fund	960,461	785,742
<b>Totals</b>	<b>\$ 12,837,318</b>	<b>\$ 11,785,013</b>

Return on investments is as follows:

	<u>2014</u>	<u>2013</u>
Realized gain on investments	\$ 382,745	\$ 145,291
Unrealized gain on investments	952,447	591,485
<b>Realized and Unrealized Gain</b>	<b>1,335,192</b>	<b>736,776</b>
Investment interest and dividends	245,521	293,362
<b>Return on Investments, Net</b>	<b>\$ 1,580,713</b>	<b>\$ 1,030,138</b>

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 4—Beneficial Interest in Split-Interest Arrangements**

Beneficial interest in split-interest arrangements, by trustee, consists of the following:

	<u>National Museum</u>	<u>Others</u>	<u>Total</u>
<b>Beneficial Interest in Split-Interest Arrangements at July 1, 2012</b>	<b>\$ 546,180</b>	<b>\$ 1,748,903</b>	<b>\$ 2,295,083</b>
Termination of agreements		(722,423)	(722,423)
Amortization of discount, payments to income beneficiaries, and income	6,930	513,445	520,375
<b>Beneficial Interest in Split-Interest Arrangements at June 30, 2013</b>	<b>553,110</b>	<b>1,539,925</b>	<b>2,093,035</b>
Amortization of discount, payments to income beneficiaries, and income	28,295	135,359	163,654
<b>Beneficial Interest in Split-Interest Arrangements at June 30, 2014</b>	<b><u>\$ 581,405</u></b>	<b><u>\$ 1,675,284</u></b>	<b><u>\$ 2,256,689</u></b>

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

The National Museum used a discount rate under Internal Revenue Code section 7520(a) of 1.2% and 1.2% to value all trust assets as of June 30, 2014 and 2013, respectively. Included with charitable remainder trusts is real property. Real property market value was \$180,000 and \$180,000 as of June 30, 2014 and 2013, 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—Fair Value**

Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date. The National Museum's Level 1 assets consist of common stock and domestic, international, and fixed income mutual funds.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 5—Fair Value—Continued**

Level 2 inputs are inputs other than quoted prices included within Level 1 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. The National Museum has no Level 2 assets or liabilities.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. The National Museum's Level 3 assets include beneficial interests in split-interest arrangements, and assets and liabilities related to its gift annuities.

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. Assets and liabilities measured at fair value on a recurring basis at June 30, 2014 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<b>June 30, 2014:</b>				
Investments	\$ 12,837,318	\$	\$	\$ 12,837,318
Split-interest arrangements			2,256,689	2,256,689
Gift annuities—assets	58,441			58,441
Gift annuities—liabilities			(65,225)	(65,225)
Planned giving liabilities			(187,147)	(187,147)
<b>Fair Value at June 30, 2014</b>	<b><u>\$ 12,895,759</u></b>	<b><u>\$</u></b>	<b><u>\$ 2,004,317</u></b>	<b><u>\$ 14,900,076</u></b>

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013 consist of the following:

<b>June 30, 2013:</b>				
Investments	\$ 11,785,013	\$	\$	\$ 11,785,013
Split-interest arrangements			2,093,035	2,093,035
Gift annuities—assets	65,307			65,307
Gift annuities—liabilities			(67,624)	(67,624)
Planned giving liabilities			(188,178)	(188,178)
<b>Fair Value at June 30, 2013</b>	<b><u>\$ 11,850,320</u></b>	<b><u>\$</u></b>	<b><u>\$ 1,837,233</u></b>	<b><u>\$ 13,687,553</u></b>

A reconciliation of the National Museum's Level 3 assets and liabilities is as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 1,837,233	\$ 2,030,489
Maturities of split-interest arrangements		(722,423)
Change in value of split-interest arrangements	167,084	529,167
<b>Ending Balance</b>	<b><u>\$ 2,004,317</u></b>	<b><u>\$ 1,837,233</u></b>



**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 6—Historic Building and Land Leases**

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, 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. The present value of the building and land lease is \$8,137,732 and \$8,193,540 as of June 30, 2014 and 2013, 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 to support the National Center for the Preservation of Democracy (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 was used, approximating the estimated useful life of the building, as there is no definitive time restriction for the National Museum's use of the building under the grant. The present value of the Historic Building was \$5,715,042 and \$5,895,208 as of June 30, 2014 and 2013, respectively.

**Note 7—Property and Equipment, Net**

The major classes of property and equipment, net at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Museum building	\$ 30,118,137	\$ 30,118,137
Furniture, fixtures, and equipment	2,336,560	2,269,451
Exhibition and media development costs	1,687,221	3,702,682
Historic Building improvements	1,487,643	1,487,643
Museum building improvements	254,348	319,433
	<u>35,883,909</u>	<u>37,897,346</u>
Less accumulated depreciation	<u>(14,007,632)</u>	<u>(15,521,421)</u>
<b>Net Property and Equipment</b>	<b><u>\$ 21,876,277</u></b>	<b><u>\$ 22,375,925</u></b>

Total depreciation expense recorded for the years ended June 30, 2014 and 2013 was \$663,846 and \$634,313 respectively.

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 8—Notes and Bonds Payable**

Notes and bonds payable as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</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, a lien on gross revenues, and a pledge of real property and endowment assets. The National Museum was in compliance with required financial covenants.	\$ 4,465,000	\$ 5,400,000
Noninterest-bearing note payable to the Community Redevelopment Agency of the City of Los Angeles (CRA) with \$15,000 of principal balance forgiven each year.	67,500	82,500
\$500,000 line of credit from a bank, bearing interest at 1% over prime, maturing on December 31, 2014.		
<b>Totals</b>	<b><u>\$ 4,532,500</u></b>	<b><u>\$ 5,482,500</u></b>

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 was 1.48% and 1.58% for the years ended June 30, 2014 and 2013, 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 agreement was executed in the notional amount of \$5,000,000 with a stated fixed rate of \$2.28%; the swap agreement expired on June 2, 2014. The liability resulting from the swap agreement of \$75,139 at June 30, 2013 was included with other liabilities on the statement of financial position at that date. With the expiration of the swap agreement, this liability was recognized as a reduction of interest expense during the year ended June 30, 2014.

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

**For the Year Ending June 30,**

2014	\$ 305,000
2015	320,000
2016	335,000
2017	345,000
2018	352,500
Thereafter	<u>2,875,000</u>
<b>Total</b>	<b><u>\$ 4,532,500</u></b>

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 9—Temporarily Restricted Net Assets**

The National Museum's temporarily restricted net assets as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Building and land lease	\$ 8,137,732	\$ 8,193,540
Historic Building	5,715,042	5,895,208
Exhibitions, education, public programs and research	2,614,019	2,730,068
Charitable remainder trusts and gift annuities	1,558,445	1,433,620
Grants and contributions pledged for future periods	429,342	26,626
Board fund	3,000	3,000
<b>Totals</b>	<b><u>\$ 18,457,580</u></b>	<b><u>\$ 18,282,062</u></b>

**Note 10—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, 2014 and 2013, 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 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.

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 10—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 preceding 20 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

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**Note 10—Permanently Restricted Net Assets—Continued**

to allow its endowment to grow at an amount that will at least keep pace with expected inflation.

Summary of Endowment Fund Balances and Activity—Endowment net asset composition by donor-imposed stipulations for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Nikkei Legacy program	\$ 3,000,000	\$ 3,000,000
Artistic programs	2,752,405	2,717,012
General operating purposes	2,057,170	1,957,077
Humanities programs	1,000,000	1,000,000
<b>Totals</b>	<b><u>\$ 8,809,575</u></b>	<b><u>\$ 8,674,089</u></b>

Change in endowment net assets consists of:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Assets at June 30, 2012</b>	<b>\$ 610,922</b>	<b>\$ 8,639,472</b>	<b>\$ 9,250,394</b>
Investment income	232,922		232,922
Change in value of split-interest agreements		24,617	24,617
Realized and unrealized gain on investments, net	508,129		508,129
<b>Total Investment Return</b>	<b>741,051</b>	<b>24,617</b>	<b>765,668</b>
Contributions		10,000	10,000
Appropriation of expenditure	(417,000)		(417,000)
<b>Endowment Net Assets at June 30, 2013</b>	<b>934,973</b>	<b>8,674,089</b>	<b>9,609,062</b>
Investment income	224,688		224,688
Change in value of split-interest agreements		35,393	35,393
Realized and unrealized gain on investments, net	950,672		950,672
<b>Total Investment Return</b>	<b>1,175,360</b>	<b>35,393</b>	<b>1,210,753</b>
Contributions		100,093	100,093
Appropriation of expenditure	(453,040)		(453,040)
<b>Endowment Net Assets at June 30, 2014</b>	<b><u>\$ 1,657,293</u></b>	<b><u>\$ 8,809,575</u></b>	<b><u>\$ 10,466,868</u></b>

**Japanese American National Museum**  
**Notes to Financial Statements—Continued**

**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 \$26,318 and \$0 to the plan during the years ended June 30, 2014 and 2013, respectively.

**Note 12—Subsequent Events**

Management evaluated all activities of Japanese American National Museum through October 14, 2014, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.