

San Diego Museum of Art

Financial Statements and Supplemental Information

Years Ended June 30, 2020 and 2019



SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information
Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of San Diego Museum of Art

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Museum of Art (a nonprofit organization), which are comprised of the statements of financial position as of June 30, 2020 and 2019, 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 preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 San Diego Museum of Art as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As described in Note 13, to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is unmodified with respect to that matter.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Aldrich CPAs + Advisors LLP

San Diego, California
November 18, 2020

SAN DIEGO MUSEUM OF ART**Statements of Financial Position**

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and restricted cash	\$ 1,255,022	\$ 663,845
Accounts receivable	1,191,886	175,188
Promises to give, net of discount on promises to give	362,643	3,095,688
Grants receivable	3,113	30,000
Inventory	154,598	150,071
Prepaid expenses	183,319	32,428
Property and equipment, net of accumulated depreciation	4,819,138	5,278,083
Deferred charges, net of accumulated amortization	81,342	89,408
Beneficial interest in assets held at the San Diego Foundation	843,524	874,057
Investments	70,520,504	71,814,588
Collections (Note 1)	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 79,415,089</u>	<u>\$ 82,203,356</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 299,140	\$ 644,425
Accrued expenses	669,457	426,259
Debt obligations	<u>6,728,342</u>	<u>5,984,558</u>
Total Liabilities	7,696,939	7,055,242
Net Assets:		
Without donor restrictions:		
Board designated endowment	49,017,172	49,805,507
Art acquisitions	1,189,883	21,236
Operating	<u>850,643</u>	<u>397,068</u>
Total without donor restrictions	51,057,698	50,223,811
With donor restrictions	<u>20,660,452</u>	<u>24,924,303</u>
Total Net Assets	<u>71,718,150</u>	<u>75,148,114</u>
Total Liabilities and Net Assets	<u>\$ 79,415,089</u>	<u>\$ 82,203,356</u>

SAN DIEGO MUSEUM OF ART**Statement of Activities**

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Investment Activity:			
Revenue and Support:			
Contributions	\$ 2,041,233	\$ 172,533	\$ 2,213,766
Art deaccessions	1,168,647	-	1,168,647
Admissions	965,919	-	965,919
Memberships	877,992	-	877,992
Miscellaneous	430,175	-	430,175
City of San Diego	392,310	-	392,310
Store sales, \$432,639, less cost of goods sold of \$214,826	217,813	-	217,813
Café commissions	157,138	-	157,138
Net assets released from restrictions, satisfaction of program restrictions	3,766,416	(3,766,416)	-
Total Revenue and Support	10,017,643	(3,593,883)	6,423,760
Investment Activity:			
Interest income	6,547	-	6,547
Endowment allocation	4,102,000	-	4,102,000
Total Investment Activity	4,108,547	-	4,108,547
Total Revenue, Support and Investment Activity	14,126,190	(3,593,883)	10,532,307
Expenses:			
Program services	7,688,266	-	7,688,266
Supporting services	3,929,682	-	3,929,682
Total Expenses	11,617,948	-	11,617,948
Change in Operations	2,508,242	(3,593,883)	(1,085,641)
Other Income (Loss):			
Investment return, net	1,301,770	455,907	1,757,677
Endowment allocation	(2,976,125)	(1,125,875)	(4,102,000)
Total Other Loss	(1,674,355)	(669,968)	(2,344,323)
Change in Net Assets	833,887	(4,263,851)	(3,429,964)
Net Assets, beginning	50,223,811	24,924,303	75,148,114
Net Assets, ending	\$ 51,057,698	\$ 20,660,452	\$ 71,718,150

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Investment Activity:			
Revenue and Support:			
Contributions	\$ 3,268,082	\$ 3,187,711	\$ 6,455,793
Admissions	1,219,861	-	1,219,861
Memberships	919,473	-	919,473
Miscellaneous	511,223	-	511,223
City of San Diego	368,448	-	368,448
Store sales, \$528,161, less cost of goods sold of \$249,652	278,509	-	278,509
Café commissions	239,647	-	239,647
Art deaccessions	21,236	-	21,236
Net assets released from restrictions, satisfaction of program restrictions	592,905	(592,905)	-
Total Revenue and Support	7,419,384	2,594,806	10,014,190
Investment Activity:			
Interest income	10,104	-	10,104
Endowment allocation	3,637,182	-	3,637,182
Total Investment Activity	3,647,286	-	3,647,286
Total Revenue, Support and Investment Activity	11,066,670	2,594,806	13,661,476
Expenses:			
Program services	8,453,582	-	8,453,582
Supporting services	3,491,307	-	3,491,307
Total Expenses	11,944,889	-	11,944,889
Change in Operations	(878,219)	2,594,806	1,716,587
Other Income (Loss):			
Investment return, net	2,542,785	972,004	3,514,789
Endowment allocation	(2,629,961)	(1,007,221)	(3,637,182)
Total Other Loss	(87,176)	(35,217)	(122,393)
Change in Net Assets	(965,395)	2,559,589	1,594,194
Net Assets, beginning	51,189,206	22,364,714	73,553,920
Net Assets, ending	\$ 50,223,811	\$ 24,924,303	\$ 75,148,114

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services					Supporting Services			Total
	Curatorial	Exhibitions and Collections	Art Acquisitions	Special Events	Other Program Services	Administration	Building and Security	Development	
Labor Costs:									
Wages	\$ 514,818	\$ 1,347,035	\$ -	\$ 183,629	\$ 1,170,244	\$ 969,685	\$ 648,831	\$ 442,352	\$ 5,276,594
Payroll taxes	31,295	67,302	-	12,941	83,019	62,996	37,409	22,306	317,268
Employee benefits	52,632	158,576	-	22,444	205,345	170,182	138,191	40,896	788,266
Workers' compensation	5,593	9,361	-	1,822	11,716	9,673	4,480	4,717	47,362
	<u>604,338</u>	<u>1,582,274</u>	<u>-</u>	<u>220,836</u>	<u>1,470,324</u>	<u>1,212,536</u>	<u>828,911</u>	<u>510,271</u>	<u>6,429,490</u>
Other Expenses:									
Art acquisition	-	-	101,500	-	-	-	-	-	101,500
Catering	1,764	-	-	68,420	21,920	21,889	43	2,170	116,206
Conservation and binding	-	42,793	-	-	-	-	-	-	42,793
Contract services	27,000	55,529	-	76,527	94,721	350,970	23,316	35,201	663,264
Credit card charges	-	-	-	-	58,258	-	-	-	58,258
Depreciation	536,664	61,679	-	2,971	140,401	18,449	12,742	8,834	781,740
Dues and subscriptions	280	3,136	-	-	5,111	40,066	-	251	48,844
Equipment and vehicles	97	2,515	-	360	8,654	15,957	30,613	260	58,456
Fees and honorariums	82,002	220,008	-	2,272	200,215	29,036	17,349	2,079	552,961
Freight	-	394,891	-	-	-	-	-	-	394,891
Graphics	-	36,250	-	2,935	-	-	-	-	39,185
Insurance	80,555	199,808	-	446	21,074	2,769	1,913	1,326	307,891
Interest	40,278	4,629	-	223	10,537	1,385	956	663	58,671
Marketing and communication	500	136,575	-	19,137	14,144	207,061	140	3,076	380,633
Miscellaneous	636	1,256	-	-	6,162	9,997	11,777	164	29,992
Postage	1,894	636	-	2,611	16,390	2,528	289	3,337	27,685
Printing	18,414	10,796	-	25,021	66,293	7,147	2,494	8,151	138,316
Professional fees	-	-	-	-	-	55,565	-	-	55,565
Rentals	6,912	53,193	-	7,666	58,347	5,616	25,570	1,152	158,456
Repair and maintenance	-	11,192	-	-	7,682	8,485	274,575	-	301,934
Supplies and materials	1,273	25,003	-	8,845	45,223	7,828	61,729	884	150,785
Travel	16,695	628	-	-	6,760	12,189	-	673	36,945
Utilities	448,328	58,465	-	2,915	124,479	25,860	14,538	8,902	683,487
	<u>1,263,292</u>	<u>1,318,982</u>	<u>101,500</u>	<u>220,349</u>	<u>906,371</u>	<u>822,797</u>	<u>478,044</u>	<u>77,123</u>	<u>5,188,458</u>
Total Expenses	\$ <u>1,867,630</u>	\$ <u>2,901,256</u>	\$ <u>101,500</u>	\$ <u>441,185</u>	\$ <u>2,376,695</u>	\$ <u>2,035,333</u>	\$ <u>1,306,955</u>	\$ <u>587,394</u>	\$ <u>11,617,948</u>
				Total Program Services	\$ <u>7,688,266</u>	Total Supporting Services	\$ <u>3,929,682</u>		

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services					Supporting Services			Total
	Curatorial	Exhibitions and Collections	Art Acquisitions	Special Events	Other Program Services	Administration	Building and Security	Development	
Labor Costs:									
Wages	\$ 455,821	\$ 1,300,303	\$ -	\$ 178,174	\$ 1,020,957	\$ 894,459	\$ 606,796	\$ 338,302	\$ 4,794,812
Payroll taxes	29,760	66,080	-	12,801	77,009	61,503	36,147	19,146	302,446
Employee benefits	71,435	154,452	-	22,192	204,795	166,926	136,739	39,002	795,541
Workers' compensation	7,847	4,588	-	1,916	11,093	9,463	9,341	5,141	49,389
	<u>564,863</u>	<u>1,525,423</u>	<u>-</u>	<u>215,083</u>	<u>1,313,854</u>	<u>1,132,351</u>	<u>789,023</u>	<u>401,591</u>	<u>5,942,188</u>
Other Expenses:									
Art acquisition	-	-	1,300	-	-	-	-	-	1,300
Catering	2,798	407	-	253,064	60,516	24,017	-	14,839	355,641
Conservation and binding	-	74,332	-	-	-	-	-	-	74,332
Contract services	66,547	195,120	-	357,870	116,377	101,786	17,507	48,692	903,899
Credit card charges	-	-	-	-	74,140	-	-	-	74,140
Depreciation	525,376	60,382	-	2,908	137,447	18,062	12,474	8,648	765,297
Dues and subscriptions	180	2,550	-	-	4,450	42,597	-	620	50,397
Equipment and vehicles	868	8,239	-	1,008	8,194	18,021	8,770	395	45,495
Fees and honorariums	88,264	113,442	-	25,467	238,790	26,324	16,231	2,257	510,775
Freight	-	683,009	-	-	-	-	-	-	683,009
Graphics	393	40,113	-	8,165	420	33	-	4	49,128
Insurance	76,526	150,783	-	424	20,020	2,631	1,817	1,260	253,461
Interest	54,628	6,278	-	302	14,293	1,878	1,297	899	79,575
Marketing and communication	974	114,342	-	25,284	18,039	197,517	595	250	357,001
Miscellaneous	795	248	-	-	8,238	9,807	11,008	960	31,056
Postage	7,757	2,478	-	4,240	22,727	2,370	17	3,617	43,206
Printing	62,279	6,699	-	39,107	71,093	26,301	383	12,229	218,091
Professional fees	-	-	-	-	-	58,383	-	-	58,383
Rentals	5,674	53,972	-	76,309	54,816	7,167	25,932	2,853	226,723
Repair and maintenance	-	11,962	-	-	6,880	14,466	247,117	-	280,425
Supplies and materials	1,550	59,760	-	10,461	52,230	9,939	80,221	1,741	215,902
Travel	22,461	-	-	437	9,179	32,704	-	1,592	66,373
Utilities	430,915	55,643	-	2,762	119,658	27,906	13,793	8,415	659,092
	<u>1,347,985</u>	<u>1,639,759</u>	<u>1,300</u>	<u>807,808</u>	<u>1,037,507</u>	<u>621,909</u>	<u>437,162</u>	<u>109,271</u>	<u>6,002,701</u>
Total Expenses	\$ <u>1,912,848</u>	\$ <u>3,165,182</u>	\$ <u>1,300</u>	\$ <u>1,022,891</u>	\$ <u>2,351,361</u>	\$ <u>1,754,260</u>	\$ <u>1,226,185</u>	\$ <u>510,862</u>	\$ <u>11,944,889</u>
				Total Program Services	\$ <u>8,453,582</u>	Total Supporting Services	\$ <u>3,491,307</u>		

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART**Statements of Cash Flows**

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ (3,429,964)	\$ 1,594,194
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	781,740	765,297
Amortization	8,066	8,066
Net realized and unrealized gains on investments	(890,999)	(2,406,517)
Changes in operating assets and liabilities:		
Accounts receivable	(1,016,698)	(1,972)
Promises to give, net	2,733,045	(1,596,838)
Grants receivable	26,887	(30,000)
Inventory	(4,527)	10,290
Prepaid expenses	(150,891)	(15,464)
Accounts payable	(345,285)	291,425
Accrued expenses	243,198	34,012
Net Cash Used by Operating Activities	(2,045,428)	(1,347,507)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	3,345,527	3,473,208
Purchases of investments	(1,160,444)	(1,362,321)
Change in charitable remainder trusts	30,533	8,329
Purchases of property and equipment	(322,795)	(339,402)
Net Cash Provided by Investing Activities	1,892,821	1,779,814
Cash Flows from Financing Activities:		
Payments of debt obligations	(50,216)	(50,216)
Proceeds from debt issued	794,000	-
Net Cash Provided (Used) by Financing Activities	743,784	(50,216)
Net Increase in Cash and Restricted Cash	591,177	382,091
Cash and Restricted Cash, beginning	663,845	281,754
Cash and Restricted Cash, ending	\$ 1,255,022	\$ 663,845
Cash and restricted cash consists of the following:		
Cash	\$ 1,213,616	\$ 622,439
Restricted cash	41,406	41,406
	\$ 1,255,022	\$ 663,845
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 58,671	\$ 79,575

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

San Diego Museum of Art (Museum) is a California nonprofit corporation formed in 1925. The Museum's purpose is to promote artistic interests, operate a museum and related facilities, maintain collections of art and assist in the education and entertainment of those interested in art. The Museum's support and revenue comes primarily from memberships, contributions, admissions and investment returns.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard under accounting principles generally accepted in the United States of America (US GAAP). During the year ended June 30, 2020, the Museum adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This standard update clarifies and improves the scope and the accounting guidance for contributions received and contributions made under US GAAP. During the year ended June 30, 2020, the Museum adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard update clarifies the presentation of restricted cash in the statement of cash flows. During the year ended June 30, 2020, the Museum adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*.

Financial Statement Presentation

The financial statements of the Museum have been prepared in accordance with US GAAP, which require the Museum to report information regarding their financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum's management and the board of directors.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts and Grants Receivable

Accounts and grants receivable consist primarily of amounts due in less than one year from the City of San Diego, other museums, art deaccession sales, and miscellaneous other small amounts. Because of the nature of the Museum's revenues and collection history, no allowance for doubtful accounts is deemed necessary at June 30, 2020 and 2019.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Inventory

Inventory consists primarily of books and catalogs for resale and is valued at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment

The Museum capitalizes all expenditures for property and equipment in excess of \$2,500. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of three to 20 years.

Charitable Remainder Trusts

Charitable remainder trusts are trusts established in connection with split-interest agreements, in which the donors or third-party beneficiaries receive specified distributions during the term of the agreements. Remainder trusts are recorded at net present value which approximates market value. Upon termination of the trusts, the Museum receives the assets remaining in the trusts.

Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. The fair value is determined using quoted market prices. Alternative investments, for which quoted market prices are not readily available, are valued at net asset value which is the amount of net assets attributable to each share of outstanding capital stock at the end of the period. Overall value is determined by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third-party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated net asset values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Investment return on restricted assets is reported as an increase in net assets without donor restrictions if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase or decrease in net assets with donor restrictions, depending on the nature of the restriction.

Collections

The Museum maintains collections of art that are significant in relation to its total assets. Collection items acquired either through purchase or donation are not capitalized or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in net assets without donor restriction if purchased with unrestricted assets and as decreases in net assets with donor restriction if purchased with donor-restricted assets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. The Museum employs curators to ensure that the collections are protected and preserved.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Revenue and Support

The Organization recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

Revenues for the Museum primarily consist of memberships, contributions, admissions and investment returns. Management has analyzed the provisions of ASC Topic 606 and Topic 958 and has concluded that no changes are necessary to conform to the new standards.

The Museum recognizes revenue from contracts with customers when its performance obligations are satisfied, regardless of the period in which it is billed. This is typically over time as the service is provided or at a point in time when ownership, risks and rewards transfer, or upon completion of the service.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

Management has analyzed the provisions of ASC Topic 958, and has implemented the new standard on a modified prospective basis.

Noncash Contributions

Many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets, except for works of art, are recorded at their fair values in the period received.

Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred.

Functional Expense Allocations

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include bond fees, bond interest, depreciation, insurance (excluding fine art policy) and utilities, which are allocated on the basis of square footage. Salaries and benefits are allocated on the basis of time and effort.

Income Tax Status

The Museum is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Museum remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose.

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Museum recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2020 and 2019 and therefore no amounts have been accrued.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements

The Museum defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Museum applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The carrying value of cash, receivables, other assets, and payables approximate fair values as of June 30, 2020 and 2019, due to the relative short maturities of these instruments.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Registered investment companies (mutual funds): Valued at the daily closing price as reported by the fund. Mutual funds held by the Museum are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact that price.

Money market account: Valued at the closing price reported on the active market on which the securities are traded.

Corporate debt and stocks: Valued at the closing price reported on the active market on which the securities are traded.

Future Accounting Standards

The FASB has issued a substantial ASU which will become effective in a future year.

In February 2016, the FASB issued ASU No. 2016-02 *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Museum is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The Museum has evaluated subsequent events through November 18, 2020, which is the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

The following reflects the Museum's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual obligations within one year of the statement of financial position date.

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,255,022	\$ 663,845
Accounts receivable	1,191,886	175,188
Promises to give, net of discount on promises to give	362,643	3,095,688
Grants receivable	3,113	30,000
Inventory	154,598	150,071
Anticipated distributions from endowments	<u>3,491,933</u>	<u>3,544,463</u>
Total Financial Assets Available for General Operations	6,459,195	7,659,255
Less amounts not available to be used within one year:		
Restricted by donor with purpose or time restrictions	(179,615)	(383,604)
Restricted cash	(41,406)	(41,406)
Anticipated contribution to board-designated endowment	<u>-</u>	<u>(700,000)</u>
	<u>(221,021)</u>	<u>(1,125,010)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,238,174</u>	<u>\$ 6,534,245</u>

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of available funds. The Museum structures its financial assets to be available as general expenditures and other obligations become due. In addition, the Museum invests cash in excess of immediate requirements in money market funds. The Museum's Board of Trustees has established a board-designated endowment for long-term investing. These funds, totaling \$49,017,172 at June 30, 2020, remain available and may be drawn, upon approval of the Board of Trustees.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 3 – Investments and Fair Value Measurement

The fair market value of investments is categorized as follows for the year ended June 30, 2020:

Description	Level 1	Level 2	Level 3	NAV	Total
Money market funds	\$ 4,456,561	\$ -	\$ -	\$ -	\$ 4,456,561
Mutual funds:					
Large cap – domestic	10,022,888	-	-	-	10,022,888
Large cap – international developed	4,421,134	-	-	-	4,421,134
Large cap – emerging markets	3,484,152	-	-	-	3,484,152
Small cap – domestic	1,222,548	-	-	-	1,222,548
Small cap – international	1,934,635	-	-	-	1,934,635
Fixed income – domestic	5,321,158	-	-	-	5,321,158
Fixed income – international	4,156,865	-	-	-	4,156,865
Equity securities:					
Large cap – domestic	11,084,340	-	-	-	11,084,340
Small cap – domestic	1,358,856	-	-	-	1,358,856
Alternative investments:					
Private equity funds	-	-	-	23,057,367	23,057,367
Total Investments	47,463,137	-	-	23,057,367	70,520,504
Beneficial interest in assets held at the San Diego Foundation	-	-	843,524	-	843,524
Total Fair Value Measurement	\$ 47,463,137	\$ -	\$ 843,524	\$ 23,057,367	\$ 71,364,028

Changes in the fair value of level 3 investments for the year ended June 30, 2020 are as follows:

	Beneficial interests in assets held at the San Diego Foundation
Fair value, beginning	\$ 874,057
Distributions	(38,071)
Investment return, net	7,538
Fair value, ending	\$ 843,524

Commitments and redemption schedules for those investments valued based on net asset value are as follows:

Description	Fair value at June 30, 2020	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	5,939,294	\$ 5,851,503	not allowed	n/a
Private equity funds [a]	8,594,509	-	daily	10 – 30 days
Private equity funds [a]	3,213,053	-	weekly	10 days
Private equity funds [a]	4,015,048	-	monthly	7 days
Private equity funds [a]	1,295,463	-	quarterly	60 days

[a] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 3 – Investments and Fair Value Measurement, continued

The fair market value of investments is categorized as follows for the year ended June 30, 2019:

Description	Level 1	Level 2	Level 3	NAV	Total
Money market funds	\$ 3,889,327	\$ -	\$ -	\$ -	\$ 3,889,327
Mutual funds:					
Large cap – domestic	15,700,485	-	-	-	15,700,485
Large cap – international developed	4,813,104	-	-	-	4,813,104
Large cap – emerging markets	3,877,687	-	-	-	3,877,687
Mid cap – domestic	1,526,239	-	-	-	1,526,239
Small cap – domestic	1,497,808	-	-	-	1,497,808
Fixed income – domestic	10,178,096	-	-	-	10,178,096
Fixed income – international	4,276,121	-	-	-	4,276,121
Equity securities:					
Large cap – domestic	5,885,826	-	-	-	5,885,826
Alternative investments:					
Private equity funds	-	-	-	20,169,895	20,169,895
Total Investments	<u>51,644,693</u>	<u>-</u>	<u>-</u>	<u>20,169,895</u>	<u>71,814,588</u>
Beneficial interest in assets held at the San Diego Foundation	-	-	874,057	-	874,057
Total Fair Value Measurement	<u>\$ 51,644,693</u>	<u>\$ -</u>	<u>\$ 874,057</u>	<u>\$ 20,169,895</u>	<u>\$ 72,688,645</u>

Changes in the fair value of level 3 investments for the year ended June 30, 2019 are as follows:

	Beneficial interests in assets held at the San Diego Foundation
Fair value, beginning	\$ 882,386
Distributions	(37,258)
Investment return, net	28,929
Fair value, ending	<u>\$ 874,057</u>

Commitments and redemption schedules for those investments valued based on net asset value are as follows:

Description	Fair value at June 30, 2019	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	6,250,182	\$ 3,107,386	not allowed	n/a
Private equity funds [a]	8,896,751	-	daily	10 – 30 days
Private equity funds [a]	3,705,964	-	monthly	7 days
Private equity funds [a]	1,316,998	-	quarterly	60 days

[a] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 4 – Promises to Give

Promises to give consist of the following:

	<u>2020</u>	<u>2019</u>
Gross pledges	\$ 402,032	\$ 3,150,000
Less imputed discount, at 3%	<u>(39,389)</u>	<u>(54,312)</u>
	<u>\$ 362,643</u>	<u>\$ 3,095,688</u>

	<u>2020</u>	<u>2019</u>
Due in one year or less	\$ 183,028	\$ 2,712,084
Due after one year through five years	<u>179,615</u>	<u>383,604</u>
	<u>\$ 362,643</u>	<u>\$ 3,095,688</u>

No allowance was considered necessary at June 30, 2020 and 2019 because management believes that all amounts are collectible.

Note 5 - Property and Equipment

The Museum buildings constructed with Museum funds have been gifted to the City of San Diego. Other improvements to the real property by the Museum will revert to the City of San Diego at the termination of the lease agreement (Note 6). Improvements made and assets owned by the Museum are as follows:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 16,872,469	\$ 16,604,962
Furniture, fixtures and equipment	<u>392,790</u>	<u>403,430</u>
	17,265,259	17,008,392
Less accumulated depreciation	<u>(12,446,121)</u>	<u>(11,730,309)</u>
	<u>\$ 4,819,138</u>	<u>\$ 5,278,083</u>

Note 6 – Leases

The Museum leases real property located in Balboa Park from the City of San Diego. The original lease term was 25 years commencing March 1, 1990 with an option to extend an additional 25 years at the Museum's option, and provides for renegotiation of lease provisions every five years. Renegotiation affects alterations in the terms and conditions of the lease solely to reflect any significant changes which have occurred during the interim period and shall not increase the consideration, terminate the lease, or shorten the term. Consideration for the lease is the Museum's agreement to operate an art museum and related services for the benefit of the general public. No amounts have been reflected in the financial statements for the use of the real property as no objective basis is available to measure the relative value. On September 18, 2014, the option to extend the lease was executed. The new lease expires February 28, 2040 and retains the same terms.

The Museum also leases 4,878 square feet of offsite storage space in Chula Vista, California under a non-cancellable agreement expiring in January 2027. Monthly lease payments for the year ended June 30, 2020 averaged \$5,057.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 6 – Leases, continued

Minimum future lease payments as of June 30, 2020 are due as follows:

Year Ending June 30,		
2021	\$	62,499
2022		64,242
2023		60,417
2024		67,494
2025		69,181
Thereafter		<u>112,873</u>
Total	\$	<u><u>436,706</u></u>

Note 7 – Debt Obligations

The Museum issued \$6,000,000 of variable rate demand certificates of participation through the County of San Diego. The purpose of the issue was to fund the remodeling of the Museum's office facilities and the renovation of the museum building. Payments of principal and interest with respect to the certificates are supported by an irrevocable direct-pay letter of credit issued by Wells Fargo Bank. The average interest rate on the issue was 1.07% and 1.41% at June 30, 2020 and 2019, respectively. The principal is due in full on September 1, 2030. In prior years, the Museum made voluntary early principal payments of \$300,000, resulting in a remaining balance of \$5,700,000 as of June 30, 2020 and 2019. Bond issuance costs and the bond underwriter's discount are capitalized and amortized using the straight-line method over the term of the bonds.

The Museum has entered into a \$502,161 loan agreement with San Diego Gas & Electric Company (SDG&E) for the replacement of two large chillers that maintain the temperature and humidity of the galleries. Amounts due to SDG&E were \$234,342 and \$284,558 at June 30, 2020 and 2019, respectively. The loans are payable in monthly installments of \$4,185 with 0% interest through February 2025.

On May 8, 2020, the Museum received loan proceeds in the amount of \$794,000 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after either eight or twenty-four weeks, as elected by the borrower, as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight or twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payment to either (1) the date that Small Business Administration remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. The Museum intends to use the proceeds for purposes consistent with the PPP. While the Museum currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take action that could cause the Museum to be ineligible for forgiveness of the loan, in whole or in part.

SAN DIEGO MUSEUM OF ART**Notes to Financial Statements**

Years Ended June 30, 2020 and 2019

Note 7 – Debt Obligations, continued

Principal payments on debt obligations at June 30, 2020 are due as follows:

	Year Ending June 30,	
	<u>2021</u>	\$ 86,308
	2022	581,274
	2023	277,066
	2024	50,216
	2025	33,478
	Thereafter	<u>5,700,000</u>
	Total	<u>\$ 6,728,342</u>

Note 8 – Restrictions on Net Assets

Net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Purpose Restrictions:		
Unappropriated endowment earnings	\$ 9,910,552	\$ 10,549,987
Exhibits	206,620	95,049
Art acquisitions	150,039	149,789
Other special projects	60,040	62,119
Education	<u>53,932</u>	<u>65,512</u>
	10,381,183	10,922,456
Time Restricted for Future Periods:		
General use	403,643	4,049,245
Special projects	-	46,443
	<u>403,643</u>	<u>4,095,688</u>
Perpetual in Nature:		
Institutional support endowments	9,032,102	9,032,102
Beneficial interest in assets held at the San Diego Foundation	<u>843,524</u>	<u>874,057</u>
	<u>9,875,626</u>	<u>9,906,159</u>
	<u>\$ 20,660,452</u>	<u>\$ 24,924,303</u>

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 8 – Restrictions on Net Assets, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	2020	2019
Satisfaction of Purpose Restrictions:		
Exhibits	\$ 39,316	\$ 122,043
Education	24,018	51,147
Special projects	5,114	194,715
	<u>68,448</u>	<u>367,905</u>
Satisfaction of Time Restrictions:		
General use	3,697,968	200,000
Special projects	-	25,000
	<u>\$ 3,766,416</u>	<u>\$ 592,905</u>

Note 9 – Revenue Recognition

Overview

The Museum earns revenue from contracts with customers, primarily through art deaccessions, admissions, store sales and café commissions. Other streams shown as miscellaneous included in this standard include traveling exhibitions, special events, education, concerts and miscellaneous activities. Revenues are accounted for under ASC Topic 606, which the Museum adopted July 1, 2019. The new guidance was applied retrospectively to the contracts that were not completed as of the adoption date.

Impact of Standard

Management has analyzed the provisions of ASC Topic 606, and has concluded that no changes are necessary to conform with the new standard. Revenue streams listed above contain a single delivery element and revenue is recognized at a single point in time when the service is provided or ownership, risks and reward are transferred to the customer.

Disaggregation of Revenue

The following table presents the Museum's revenue by category for the years ended June 30:

	2020	2019
Transferred at a point in time:		
Art deaccessions	\$ 1,168,647	\$ 21,236
Admissions	965,919	1,219,861
Store sales, net	217,813	278,509
Café commissions	157,138	239,647
Miscellaneous	374,632	427,804
	<u>\$ 2,884,149</u>	<u>\$ 2,187,057</u>

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 9 – Revenue Recognition, continued

Performance Obligations

Art Deaccessions – Art deaccession revenue is recognized at a single point in time when the piece of art is sold.

Admissions – Admissions revenue is recognized at a single point in time when the Museum provides the customer access to the museum and special exhibits.

Store Sales – Sales are recognized at a single point in time when the customer makes a purchase.

Café Commissions – Commissions revenue is recognized at a single point in time when the Museum receives their share of the revenue.

Miscellaneous – Recognized at a single point in time when the Museum provides service to customers.

Contract Balances

The timing of revenue recognition, billing and cash collections results in billed accounts receivable (contract assets) on the statements of financial position.

The beginning and ending contract balances were as follows at June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ <u>1,191,886</u>	\$ <u>175,188</u>	\$ <u>173,216</u>

Significant Judgments

The Museum analyzes revenue recognition on a portfolio approach under ASC Topic 606. Significant judgment is utilized in determining the appropriate portfolios to assess for meeting the criteria to recognize revenue under ASC Topic 606. The Museum has determined that, for each distinct revenue stream identified, all contracts can be grouped into one portfolio. Based on past experience, customers within each distinct stream all behave similarly, contracts contain similar terms, and policies are the same across all contracts. The Museum does not expect that revenue earned for the portfolio is significantly different as compared to revenue that would be earned if they were to assess each contract separately.

Significant judgment is also required to assess collectability. The Museum assesses collectability each reporting period to monitor that the collectability threshold is met and does not recognize revenue if collection is not probable. Impairment losses are recognized when there are significant changes in a customer's assessed collectability.

Note 10 – Employee Retirement Plan

The Museum sponsors a tax deferred annuity plan (the Plan) that qualifies under Section 403(b) of the Internal Revenue Code and covers substantially all employees. On behalf of each eligible employee, the Plan allows the Museum to contribute 3.5% of compensation. For the years ended June 30, 2020 and 2019, the Museum contributed \$132,703 and \$130,422, respectively.

Note 11 – Endowments

The Museum's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 11 – Endowments, continued

The Board of Trustees of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner that is consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the 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 Museum
- 7) The investment policies of the Museum

At June 30, 2020, the endowment net assets composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 49,017,172	\$ -	\$ 49,017,172
Donor designated funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by the donor	-	9,032,102	9,032,102
Charitable remainder trust assets to be included in endowment	-	843,524	843,524
Accumulated investment gains	-	9,910,552	9,910,552
Total endowment funds	<u>\$ 49,017,172</u>	<u>\$ 19,786,178</u>	<u>\$ 68,803,350</u>

Changes in endowment net assets for the year ended June 30, 2020 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 49,805,507	\$ 20,456,146	\$ 70,261,653
Transfer from operating fund	897,968	-	897,968
Appropriated expenditures	(2,976,125)	(1,125,875)	(4,102,000)
Investment return, net	1,289,822	455,907	1,745,729
Endowment net assets, end of year	<u>\$ 49,017,172</u>	<u>\$ 19,786,178</u>	<u>\$ 68,803,350</u>

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 11 – Endowments, continued

At June 30, 2019, the endowment net assets composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 49,805,507	\$ -	\$ 49,805,507
Donor designated funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by the donor	-	9,032,102	9,032,102
Charitable remainder trust assets to be included in endowment	-	874,057	874,057
Accumulated investment gains	-	10,549,987	10,549,987
Total endowment funds	<u>\$ 49,805,507</u>	<u>\$ 20,456,146</u>	<u>\$ 70,261,653</u>

Changes in endowment net assets for the year ended June 30, 2019 consisted of the following:

	Without Donor	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 49,695,530	\$ 20,491,363	\$ 70,186,893
Contributions	200,000	-	200,000
Appropriated expenditures	(2,629,961)	(1,007,221)	(3,637,182)
Investment return, net	2,539,938	972,004	3,511,942
Endowment net assets, end of year	<u>\$ 49,805,507</u>	<u>\$ 20,456,146</u>	<u>\$ 70,261,653</u>

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments and increase the value of the original contributed capital by an amount not less than the annual increase in the Consumer Price Index (CPI). In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (Target Return) over ten years. In achieving the Target Return, the Museum seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

Investment Strategy

The investment strategy of the Museum is to develop a diversified portfolio of investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

Each year, the Museum appropriates a portion of the fair market value of endowment assets for distribution. The portion of the fair market value appropriated for the years ended June 30, 2020 and 2019 was 5.00% each year. Market value, for the purpose of calculating the spending policy, is based on the trailing twenty quarter average of the market value of the endowment assets as of December 31st of each year. The Board of Trustees may, upon recommendation of the Finance Committee, in response to changes in economic circumstances, raise or lower the percentage to be distributed in any given year.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 12 – Concentration of Credit Risk

The Museum maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000.

Note 13 – Subsequent Events

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States of America (US) has caused business disruption through mandated and voluntary closing of businesses and shelter-in-place orders, including California, where the Museum is headquartered. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of business closures, shelter-in-place orders, and the ultimate impact of governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Museum. However, the financial impact and duration cannot be reasonably estimated at this time.

Due to the COVID-19 pandemic, the Museum closed to the public on March 14, 2020 and re-opened on September 5, 2020. The Museum had already been at the forefront of public arts institutions in digitizing images of its collection and creating online content to engage all that are interested in art. This unprecedented situation offered an opportunity to expand our digital footprint. Virtual SDMA brought new art experiences to connect and inspire, such as the Masterpiece Minute podcast and a virtual Art Alive exhibition. Virtual SDMA Plus will allow audiences to continue to experience artistic performances through our collaborations with other local arts institutions, such as Art of Elan, the San Diego Ballet, the San Diego Opera, the San Diego Shakespeare Society and the San Diego Youth Symphony. In addition, the Museum transitioned our Summer Art Camps from in-person to virtual. This virtual format allowed us to reach approximately 1,500 children from nine states, which far surpasses the limits of approximately 25 children participating in each on-site summer camp. The success of this virtual program will be expanded upon by offering a Winter Art Camp. Once in-person attendance fully resumes, the Museum will continue to offer virtual programming as a way to connect and engage with the broadest possible audience.

Note 14 – Reclassifications

Certain items in the 2019 financial statements have been reclassified to conform to current year classifications, specifically special events on the statements of activities and restricted cash on the statements of cash flows. Such changes have no effect on previously reported changes in net assets.

SUPPLEMENTAL INFORMATION

SAN DIEGO MUSEUM OF ART**Schedule of Contributions**

Years Ended June 30, 2020 and 2019

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Special events	\$ 992,390	\$ -	\$ 992,390
Foundations	532,061	123,557	655,618
Individual gifts	245,061	34,010	279,071
Corporate support	166,803	3,600	170,403
Trustee support	68,712	11,366	80,078
Grants	31,128	-	31,128
Contribution box	3,078	-	3,078
County of San Diego	2,000	-	2,000
	<u>\$ 2,041,233</u>	<u>\$ 172,533</u>	<u>\$ 2,213,766</u>

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Individual gifts	\$ 517,745	\$ 3,039,618	\$ 3,557,363
Trustee support	1,197,932	98,801	1,296,733
Special events	980,486	-	980,486
Foundations	255,973	47,592	303,565
Corporate support	244,186	1,700	245,886
Grants	50,535	-	50,535
County of San Diego	17,500	-	17,500
Contribution box	3,725	-	3,725
	<u>\$ 3,268,082</u>	<u>\$ 3,187,711</u>	<u>\$ 6,455,793</u>

See independent auditors' report.