

San Diego Museum of Art

Financial Statements and Supplemental Information

Years Ended June 30, 2023 and 2022



SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information
Years Ended June 30, 2023 and 2022

Table of Contents

| | Page |
|-----------------------------------|------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Functional Expenses | 6 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |
| Supplemental Information: | |
| Schedules of Contributions | 26 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
San Diego Museum of Art

Opinion

We have audited the accompanying financial statements of San Diego Museum of Art (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Diego Museum of Art and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Museum of Art's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 San Diego Museum of Art's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Museum of Art's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 26 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 29, 2023

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

June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and restricted cash | \$ 2,556,291 | \$ 1,618,464 |
| Accounts receivable | 346,230 | 108,640 |
| Promises to give, net of discount on promises to give | 557,457 | 1,413,245 |
| Other assets | 230,142 | 213,380 |
| Property and equipment, net of accumulated depreciation | 5,400,481 | 4,944,965 |
| Operating lease right-of-use asset | 230,014 | - |
| Beneficial interest in assets held at The San Diego Foundation | 988,570 | 966,764 |
| Investments | <u>68,440,155</u> | <u>69,637,373</u> |
| Total Assets | <u>\$ 78,749,340</u> | <u>\$ 78,902,831</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 1,273,996 | \$ 618,161 |
| Accrued expenses | 905,663 | 1,218,035 |
| Operating lease liabilities | 237,225 | - |
| Debt obligations | <u>5,783,693</u> | <u>5,833,910</u> |
| Total Liabilities | 8,200,577 | 7,670,106 |
| Net Assets: | | |
| Without donor restrictions: | | |
| Board designated endowment | 47,180,716 | 48,304,156 |
| Art acquisitions | 3,040 | 102,922 |
| Operating | <u>809,324</u> | <u>245,179</u> |
| Total Without Donor Restrictions | 47,993,080 | 48,652,257 |
| With donor restrictions | <u>22,555,683</u> | <u>22,580,468</u> |
| Total Net Assets | <u>70,548,763</u> | <u>71,232,725</u> |
| Total Liabilities and Net Assets | <u>\$ 78,749,340</u> | <u>\$ 78,902,831</u> |

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

Year Ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| Revenue, Support and Investment Activity: | | | |
| Revenue and support: | | | |
| Contributions | \$ 3,445,643 | \$ 835,056 | \$ 4,280,699 |
| Admissions | 1,949,062 | - | 1,949,062 |
| Memberships | 1,116,381 | - | 1,116,381 |
| Traveling exhibitions | 848,112 | - | 848,112 |
| City of San Diego | 514,819 | - | 514,819 |
| Store sales, \$654,610 less cost of goods sold of \$312,521 | 342,089 | - | 342,089 |
| Café commissions | 237,525 | - | 237,525 |
| Miscellaneous | 222,234 | - | 222,234 |
| Art deaccessions | 16,672 | - | 16,672 |
| Net assets released from restrictions, satisfaction of program restrictions | 759,783 | (759,783) | - |
| Total Revenue and Support | 9,452,320 | 75,273 | 9,527,593 |
| Investment Activity: | | | |
| Interest income | 17,967 | - | 17,967 |
| Endowment allocation | 7,043,181 | - | 7,043,181 |
| Total Investment Activity | 7,061,148 | - | 7,061,148 |
| Total Revenue, Support and Investment Activity | 16,513,468 | 75,273 | 16,588,741 |
| Expenses: | | | |
| Program services | 10,569,064 | - | 10,569,064 |
| Supporting services | 5,467,215 | - | 5,467,215 |
| Total Expenses | 16,036,279 | - | 16,036,279 |
| Change in Operations | 477,189 | 75,273 | 552,462 |
| Other Income (Loss): | | | |
| Investment return, net | 4,159,133 | 1,647,624 | 5,806,757 |
| Endowment allocation | (5,295,499) | (1,747,682) | (7,043,181) |
| Total Other Loss | (1,136,366) | (100,058) | (1,236,424) |
| Change in Net Assets | (659,177) | (24,785) | (683,962) |
| Net Assets, beginning | 48,652,257 | 22,580,468 | 71,232,725 |
| Net Assets, ending | \$ 47,993,080 | \$ 22,555,683 | \$ 70,548,763 |

See accompanying notes to financial statements.

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

Year Ended June 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| Revenue, Support and Investment Activity: | | | |
| Revenue and support: | | | |
| Contributions | \$ 2,226,641 | \$ 2,399,373 | \$ 4,626,014 |
| Admissions | 1,754,119 | - | 1,754,119 |
| Memberships | 1,000,632 | - | 1,000,632 |
| PPP loan forgiveness | 743,721 | - | 743,721 |
| Art deaccessions | 363,259 | - | 363,259 |
| City of San Diego | 298,669 | - | 298,669 |
| Store sales, \$551,859 less cost of goods sold of \$261,901 | 289,958 | - | 289,958 |
| Café commissions | 223,141 | - | 223,141 |
| Miscellaneous | 181,097 | - | 181,097 |
| Net assets released from restrictions, satisfaction of program restrictions | 282,892 | (282,892) | - |
| Total Revenue and Support | 7,364,129 | 2,116,481 | 9,480,610 |
| Investment Activity: | | | |
| Interest income | 813 | - | 813 |
| Endowment allocation | 5,485,875 | - | 5,485,875 |
| Total Investment Activity | 5,486,688 | - | 5,486,688 |
| Total Revenue, Support and Investment Activity | 12,850,817 | 2,116,481 | 14,967,298 |
| Expenses: | | | |
| Program services | 11,380,212 | - | 11,380,212 |
| Supporting services | 4,325,060 | - | 4,325,060 |
| Total Expenses | 15,705,272 | - | 15,705,272 |
| Change in Operations | (2,854,455) | 2,116,481 | (737,974) |
| Other Loss: | | | |
| Investment return, net | (8,816,572) | (3,093,905) | (11,910,477) |
| Endowment allocation | (4,021,902) | (1,463,973) | (5,485,875) |
| Total Other Loss | (12,838,474) | (4,557,878) | (17,396,352) |
| Change in Net Assets | (15,692,929) | (2,441,397) | (18,134,326) |
| Net Assets, beginning | 64,345,186 | 25,021,865 | 89,367,051 |
| Net Assets, ending | \$ 48,652,257 | \$ 22,580,468 | \$ 71,232,725 |

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART
Statements of Functional Expenses
Year Ended June 30, 2023

| | Program Services | | | | | Supporting Services | | | Total |
|-----------------------------|---------------------|-----------------------------|-------------------|------------------------|------------------------|---------------------------|-----------------------|---------------------|----------------------|
| | Curatorial | Exhibitions and Collections | Art Acquisitions | Special Events | Other Program Services | Administration | Building and Security | Development | |
| Labor Costs: | | | | | | | | | |
| Wages | \$ 559,840 | \$ 1,722,717 | \$ - | \$ 204,779 | \$ 963,848 | \$ 1,279,221 | \$ 957,187 | \$ 573,280 | \$ 6,260,872 |
| Payroll taxes | 37,504 | 58,264 | - | 15,099 | 73,720 | 81,837 | 38,153 | 31,525 | 336,102 |
| Employee benefits | 61,021 | 150,069 | - | 28,733 | 176,485 | 219,772 | 155,242 | 68,140 | 859,462 |
| Workers' compensation | 8,247 | 10,269 | - | 2,927 | 14,871 | 17,274 | 6,825 | 8,046 | 68,459 |
| | <u>666,612</u> | <u>1,941,319</u> | <u>-</u> | <u>251,538</u> | <u>1,228,924</u> | <u>1,598,104</u> | <u>1,157,407</u> | <u>680,991</u> | <u>7,524,895</u> |
| Other Expenses: | | | | | | | | | |
| Art acquisition | - | - | 900,648 | - | - | - | - | - | 900,648 |
| Catering | 1,012 | 3,775 | - | 235,445 | 25,590 | 27,729 | - | 7,475 | 301,026 |
| Conservation and binding | - | 103,623 | - | - | - | - | - | - | 103,623 |
| Contract services | 47,780 | 188,260 | - | 398,371 | 88,871 | 117,555 | 24,124 | 28,660 | 893,621 |
| Credit card charges | - | - | - | - | 110,503 | - | - | - | 110,503 |
| Depreciation | 349,165 | 40,130 | - | 1,933 | 91,347 | 12,004 | 8,290 | 5,747 | 508,616 |
| Dues and subscriptions | 699 | 3,889 | - | 592 | 5,001 | 46,919 | 156 | 1,461 | 58,717 |
| Equipment and vehicles | 305 | 35,209 | - | 8,345 | 38,753 | 17,054 | 35,891 | - | 135,557 |
| Fees and honorariums | 138,241 | 270,910 | - | 7,754 | 186,325 | 23,663 | 13,109 | 54,140 | 694,142 |
| Freight | - | 865,598 | - | - | - | - | - | - | 865,598 |
| Graphics | 675 | 47,760 | - | 13,004 | 1,440 | 162 | - | 924 | 63,965 |
| Insurance | 88,553 | 224,076 | - | 490 | 23,167 | 3,044 | 2,103 | 1,458 | 342,891 |
| Interest | 87,579 | 10,066 | - | 485 | 22,912 | 3,011 | 2,079 | 1,442 | 127,574 |
| Marketing and communication | 1,084 | 105,174 | - | 30,429 | 20,225 | 206,815 | 367 | 12,160 | 376,254 |
| Miscellaneous | 767 | 314 | - | - | 5,189 | 20,398 | 12,222 | 480 | 39,370 |
| Postage | 30,396 | 90 | - | 6,428 | 24,531 | 2,136 | 154 | 3,206 | 66,941 |
| Printing | 44,861 | 4,390 | - | 28,555 | 65,595 | 3,692 | 171 | 1,915 | 149,179 |
| Professional fees | - | - | - | - | 6,445 | 148,784 | - | 580,692 | 735,921 |
| Rentals | 5,301 | 65,298 | - | 137,420 | 56,085 | 8,371 | 6,714 | 3,150 | 282,339 |
| Repair and maintenance | - | 11,721 | - | - | 6,659 | 10,152 | 350,659 | - | 379,191 |
| Supplies and materials | 1,405 | 45,718 | - | 37,357 | 15,156 | 10,296 | 73,883 | 1,665 | 185,480 |
| Travel | 23,336 | 1,410 | - | 238 | 8,475 | 44,096 | - | 18,521 | 96,076 |
| Utilities | 723,821 | 94,610 | - | 4,662 | 199,245 | 35,975 | 22,183 | 13,656 | 1,094,152 |
| | <u>1,544,980</u> | <u>2,122,021</u> | <u>900,648</u> | <u>911,508</u> | <u>1,001,514</u> | <u>741,856</u> | <u>552,105</u> | <u>736,752</u> | <u>8,511,384</u> |
| Total Expenses | \$ <u>2,211,592</u> | \$ <u>4,063,340</u> | \$ <u>900,648</u> | \$ <u>1,163,046</u> | \$ <u>2,230,438</u> | \$ <u>2,339,960</u> | \$ <u>1,709,512</u> | \$ <u>1,417,743</u> | \$ <u>16,036,279</u> |
| | | | | Total Program Services | \$ <u>10,569,064</u> | Total Supporting Services | \$ <u>5,467,215</u> | | |

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART
Statements of Functional Expenses
Year Ended June 30, 2022

| | Program Services | | | | | Supporting Services | | | Total |
|-----------------------------|---------------------|-----------------------------|---------------------|------------------------|------------------------|---------------------------|-----------------------|-------------------|----------------------|
| | Curatorial | Exhibitions and Collections | Art Acquisitions | Special Events | Other Program Services | Administration | Building and Security | Development | |
| Labor Costs: | | | | | | | | | |
| Wages | \$ 456,232 | \$ 1,397,347 | \$ - | \$ 167,796 | \$ 950,414 | \$ 1,068,918 | \$ 789,279 | \$ 431,962 | \$ 5,261,948 |
| Payroll taxes | 30,535 | 52,453 | - | 12,514 | 70,944 | 72,413 | 33,354 | 22,750 | 294,963 |
| Employee benefits | 53,459 | 132,888 | - | 26,711 | 179,022 | 197,839 | 137,268 | 48,798 | 775,985 |
| Workers' compensation | 6,644 | 12,111 | - | 2,361 | 15,479 | 14,792 | 6,938 | 7,069 | 65,394 |
| | <u>546,870</u> | <u>1,594,799</u> | <u>-</u> | <u>209,382</u> | <u>1,215,859</u> | <u>1,353,962</u> | <u>966,839</u> | <u>510,579</u> | <u>6,398,290</u> |
| Other Expenses: | | | | | | | | | |
| Art acquisition | - | - | 3,690,093 | - | - | - | - | - | 3,690,093 |
| Catering | 847 | 376 | - | 175,694 | 6,851 | 18,404 | - | 1,297 | 203,469 |
| Conservation and binding | - | 37,531 | - | - | 1,000 | - | - | - | 38,531 |
| Contract services | 1,000 | 100,038 | - | 409,343 | 92,544 | 112,564 | 19,481 | 247,342 | 982,312 |
| Credit card charges | - | - | - | - | 97,291 | - | - | - | 97,291 |
| Depreciation | 395,380 | 45,441 | - | 2,189 | 103,438 | 13,593 | 9,388 | 6,508 | 575,937 |
| Dues and subscriptions | 830 | 3,557 | - | 1,065 | 4,277 | 44,227 | 156 | 240 | 54,352 |
| Equipment and vehicles | 87 | 4,084 | - | 759 | 8,766 | 4,529 | 6,582 | 152 | 24,959 |
| Fees and honorariums | 87,514 | 268,820 | - | 4,983 | 176,643 | 23,939 | 11,925 | 2,453 | 576,277 |
| Freight | - | 363,683 | - | - | - | - | - | - | 363,683 |
| Graphics | - | 36,114 | - | 5,494 | 630 | - | - | 6 | 42,244 |
| Insurance | 85,922 | 193,877 | - | 476 | 22,479 | 2,954 | 2,040 | 1,414 | 309,162 |
| Interest | 8,572 | 985 | - | 47 | 2,243 | 295 | 204 | 141 | 12,487 |
| Marketing and communication | 625 | 106,160 | - | 28,990 | 14,947 | 222,512 | 153 | 3,848 | 377,235 |
| Miscellaneous | 417 | 4,085 | - | - | 2,912 | 19,047 | 12,786 | 15 | 39,262 |
| Postage | 49 | 346 | - | 3,084 | 20,551 | 2,146 | 271 | 3,674 | 30,121 |
| Printing | 8,031 | 3,310 | - | 37,430 | 34,996 | 4,568 | 22 | 8,406 | 96,763 |
| Professional fees | - | - | - | - | - | 208,982 | - | 2,500 | 211,482 |
| Rentals | 5,325 | 58,391 | - | 70,056 | 51,689 | 7,928 | 15,862 | 1,135 | 210,386 |
| Repair and maintenance | - | 14,081 | - | - | 6,760 | 15,345 | 258,493 | - | 294,679 |
| Supplies and materials | 950 | 16,197 | - | 14,736 | 31,786 | 5,797 | 73,735 | 1,587 | 144,788 |
| Travel | 26,294 | 883 | - | - | 400 | 36,380 | - | - | 63,957 |
| Utilities | 571,807 | 74,954 | - | 3,673 | 158,424 | 29,366 | 18,095 | 11,193 | 867,512 |
| | <u>1,193,650</u> | <u>1,332,913</u> | <u>3,690,093</u> | <u>758,019</u> | <u>838,627</u> | <u>772,576</u> | <u>429,193</u> | <u>291,911</u> | <u>9,306,982</u> |
| Total Expenses | \$ <u>1,740,520</u> | \$ <u>2,927,712</u> | \$ <u>3,690,093</u> | \$ <u>967,401</u> | \$ <u>2,054,486</u> | \$ <u>2,126,538</u> | \$ <u>1,396,032</u> | \$ <u>802,490</u> | \$ <u>15,705,272</u> |
| | | | | Total Program Services | \$ <u>11,380,212</u> | Total Supporting Services | \$ <u>4,325,060</u> | | |

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ (683,962) | \$ (18,134,326) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 508,616 | 575,937 |
| Non-cash operating lease expense | 7,211 | - |
| Net realized and unrealized (gains) losses on investments | (4,643,120) | 12,786,968 |
| Non-cash contribution of stock | (140,069) | (259,098) |
| PPP loan forgiveness | - | (743,721) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (237,590) | 767,270 |
| Promises to give, net | 855,788 | (1,237,235) |
| Other assets | (16,762) | 110,869 |
| Accounts payable | 655,835 | (132,361) |
| Accrued expenses | (312,372) | 66,017 |
| Net Cash Used by Operating Activities | <u>(4,006,425)</u> | <u>(6,199,680)</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of investments | 7,235,963 | 8,472,679 |
| Purchases of investments | (1,255,556) | (995,655) |
| Change in beneficial interest in assets | (21,806) | 79,396 |
| Purchases of property and equipment | (964,132) | (1,059,095) |
| Net Cash Provided by Investing Activities | <u>4,994,469</u> | <u>6,497,325</u> |
| Cash Flows Used by Financing Activities: | | |
| Payments of debt obligations | (50,217) | (50,216) |
| Net Increase in Cash and Restricted Cash | <u>937,827</u> | <u>247,429</u> |
| Cash and Restricted Cash, beginning | <u>1,618,464</u> | <u>1,371,035</u> |
| Cash and Restricted Cash, ending | <u>\$ 2,556,291</u> | <u>\$ 1,618,464</u> |
| Cash and Restricted Cash Consists of the Following: | | |
| Cash | \$ 659,910 | \$ 754,506 |
| Restricted cash | <u>1,896,381</u> | <u>863,958</u> |
| | <u>\$ 2,556,291</u> | <u>\$ 1,618,464</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | <u>\$ 127,574</u> | <u>\$ 12,487</u> |
| Supplemental Disclosure of Noncash Investing and Financing Activities: | | |
| Right-of-use assets obtained in exchange for new operating lease liabilities | <u>\$ 290,127</u> | <u>\$ -</u> |

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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 contributions, admissions, memberships and investment returns.

Financial Statement Presentation

The financial statements of the Museum have been prepared in accordance with accounting principles generally accepted in the United States of America (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 Trustees.
- 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, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

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

Cash Equivalents

The Museum considers all highly liquid investments, except for those held for long-term investment, with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash is limited in use for donor restricted purposes.

Accounts Receivable

Accounts receivable consists 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, 2023 and 2022.

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 uncollectable 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. Inventory is presented in other assets on the statements of financial position. The value of inventory was \$130,479 and \$111,928 at June 30, 2023 and 2022, respectively.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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

Property and Equipment

As of July 1, 2022, the Museum capitalizes all expenditures for property and equipment in excess of \$25,000. Prior to July 1, 2022, the Museum capitalized 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 3 to 20 years. Once property and equipment reach a zero book value, they are written off.

Leases

The Museum adopted Accounting Standards Update (ASU) 2016-02, *Leases* as of July 1, 2022. The standard provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes previous US GAAP guidance on leases and requires substantially all leases to be reported on the statements of financial position as right-of-use assets and lease liabilities, as well as additional disclosures (see Note 6). The Museum adopted this standard using the modified retrospective approach. Upon adoption, the Museum recognized right-of-use assets and lease liabilities of \$290,127.

Leases with an initial term of 12 months or less are not recorded on the statements of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term.

Beneficial Interest in Assets

The Museum is a beneficiary of a remainder trust in a charitable remainder trust fund, which is held by a third-party trustee, The San Diego Foundation. Charitable remainder trusts are trusts established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Remainder trusts are recorded at net present value, which approximates market value. Upon termination of the trust, the Museum receives the assets remaining in the trust.

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.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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

Collections, continued

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.

Revenue and Support

The Museum 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 Museum expects to be entitled in exchange for those goods or services.

Revenues for the Museum primarily consist of contributions, admissions, memberships, and investment returns.

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.

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 statements of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2023 and 2022, and therefore, no amounts have been accrued.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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 US GAAP. 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, 2023 and 2022, 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, 2023 and 2022.

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

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.

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

Private equity funds: Valued at net asset value per share.

Beneficial interest in assets: Valued at net present value of the Museum's interest in the underlying assets.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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

Subsequent Events

The Museum has evaluated subsequent events through November 29, 2023, which is the date the financial statements were available to be issued (Note 14).

Note 2 - Liquidity and Availability

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

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Cash and restricted cash | \$ 2,556,291 | \$ 1,618,464 |
| Accounts receivable | 346,230 | 108,640 |
| Promises to give, net of discount on promises to give | 557,457 | 1,413,245 |
| Anticipated distributions from endowments | <u>3,573,403</u> | <u>3,617,181</u> |
| Total financial assets available for general operations | 7,033,381 | 6,757,530 |
| Less amounts not available to be used within one year: | | |
| Restricted cash | <u>(1,783,198)</u> | <u>(363,958)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 5,250,183</u> | <u>\$ 6,393,572</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 \$47,180,716 and \$48,304,156 at June 30, 2023 and 2022, respectively, remain available and may be drawn, upon approval of the Board of Trustees.

Additionally, the Museum has a direct-pay letter of credit from Wells Fargo Bank with an original stated amount of \$5,788,077. There was no outstanding balance on the letter of credit as of June 30, 2023 and 2022.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 3 - Investments and Fair Value Measurement

The fair market value of investments is categorized as follows for the year ended June 30, 2023:

| Description | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---------------|---------|------------|---------------|---------------|
| Money market funds | \$ 3,167,446 | \$ - | \$ - | \$ - | \$ 3,167,446 |
| Mutual funds: | | | | | |
| Large cap – domestic | 10,799,549 | - | - | - | 10,799,549 |
| Large cap – international developed | 3,909,266 | - | - | - | 3,909,266 |
| Large cap – emerging markets | 1,751,325 | - | - | - | 1,751,325 |
| Small cap – domestic | 1,067,946 | - | - | - | 1,067,946 |
| Small cap – international | 1,665,558 | - | - | - | 1,665,558 |
| Fixed income – domestic | 7,094,193 | - | - | - | 7,094,193 |
| Equity securities: | | | | | |
| Large cap – domestic | 10,628,084 | - | - | - | 10,628,084 |
| Small cap – domestic | 1,122,490 | - | - | - | 1,122,490 |
| Alternative investments: | | | | | |
| Private equity funds | - | - | - | 27,234,298 | 27,234,298 |
| Total Investments | 41,205,857 | - | - | 27,234,298 | 68,440,155 |
| Beneficial interest in assets held at The San Diego Foundation | - | - | 988,570 | - | 988,570 |
| Total Fair Value Measurement | \$ 41,205,857 | \$ - | \$ 988,570 | \$ 27,234,298 | \$ 69,428,725 |

Changes in the fair value of level 3 investments for the year ended June 30, 2023 are as follows:

| | Beneficial interests in assets held at The San Diego Foundation |
|------------------------|---|
| Fair value, beginning | \$ 966,764 |
| Distributions | (42,090) |
| Investment return, net | 63,896 |
| Fair value, ending | \$ 988,570 |

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

| Description | Fair value at June 30, 2023 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--------------------------|--------------------------------|-------------------------|-------------------------|-----------------------------|
| Private equity funds [a] | \$ 11,068,331 | \$ 8,042,398 | not allowed | n/a |
| Private equity funds [a] | 9,434,761 | - | daily | 10 – 30 days |
| Private equity funds [a] | 3,748,550 | - | weekly | 10 days |
| Private equity funds [a] | 2,982,656 | - | monthly | 7 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, 2023 and 2022

Note 3 - Investments and Fair Value Measurement, continued

The fair market value of investments is categorized as follows for the year ended June 30, 2022:

| Description | Level 1 | Level 2 | Level 3 | NAV | Total |
|--|---------------|---------|------------|---------------|---------------|
| Money market funds | \$ 5,232,013 | \$ - | \$ - | \$ - | \$ 5,232,013 |
| Mutual funds: | | | | | |
| Large cap – domestic | 10,617,852 | - | - | - | 10,617,852 |
| Large cap – international developed | 3,649,420 | - | - | - | 3,649,420 |
| Large cap – emerging markets | 3,165,599 | - | - | - | 3,165,599 |
| Small cap – domestic | 1,233,814 | - | - | - | 1,233,814 |
| Small cap – international | 1,881,806 | - | - | - | 1,881,806 |
| Fixed income – domestic | 7,056,170 | - | - | - | 7,056,170 |
| Fixed income – international | 2,001,068 | - | - | - | 2,001,068 |
| Equity securities: | | | | | |
| Large cap – domestic | 10,042,416 | - | - | - | 10,042,416 |
| Small cap – domestic | 1,232,125 | - | - | - | 1,232,125 |
| Alternative investments: | | | | | |
| Private equity funds | - | - | - | 23,525,090 | 23,525,090 |
| Total Investments | 46,112,283 | - | - | 23,525,090 | 69,637,373 |
| Beneficial interest in assets held at The San Diego Foundation | - | - | 966,764 | - | 966,764 |
| Total Fair Value Measurement | \$ 46,112,283 | \$ - | \$ 966,764 | \$ 23,525,090 | \$ 70,604,137 |

Changes in the fair value of level 3 investments for the year ended June 30, 2022 are as follows:

| | Beneficial interests in assets held at The San Diego Foundation |
|------------------------|---|
| Fair value, beginning | \$ 1,046,160 |
| Distributions | (39,335) |
| Investment return, net | (40,061) |
| Fair value, ending | \$ 966,764 |

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

| Description | Fair value at June 30, 2022 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--------------------------|-----------------------------|----------------------|----------------------|--------------------------|
| Private equity funds [a] | \$ 9,313,114 | \$ 6,267,563 | not allowed | n/a |
| Private equity funds [a] | 7,931,976 | - | daily | 10 – 30 days |
| Private equity funds [a] | 3,781,685 | - | weekly | 10 days |
| Private equity funds [a] | 2,498,315 | - | monthly | 7 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, 2023 and 2022

Note 4 - Promises to Give

Promises to give consist of the following:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|---------------------|
| Gross promises to give | \$ 578,583 | \$ 1,413,245 |
| Less imputed discount, at 5.5% - 6.75% | <u>(21,126)</u> | <u>-</u> |
| | <u>\$ 557,457</u> | <u>\$ 1,413,245</u> |
| | <u>2023</u> | <u>2022</u> |
| Due in one year or less | \$ 467,127 | \$ 1,413,245 |
| Due after one year through five years | <u>90,330</u> | <u>-</u> |
| | <u>\$ 557,457</u> | <u>\$ 1,413,245</u> |

No allowance was considered necessary at June 30, 2023 and 2022 because management believes that all amounts are collectable.

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>2023</u> | <u>2022</u> |
|-----------------------------------|---------------------|---------------------|
| Building and improvements | \$ 10,764,106 | \$ 10,874,248 |
| Furniture, fixtures and equipment | 299,262 | 347,850 |
| Construction in progress | <u>1,643,201</u> | <u>932,270</u> |
| | 12,706,569 | 12,154,368 |
| Less accumulated depreciation | <u>(7,306,088)</u> | <u>(7,209,403)</u> |
| | <u>\$ 5,400,481</u> | <u>\$ 4,944,965</u> |

Note 6 - Leasing Arrangements

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.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 6 - Leasing Arrangements, continued

The Museum also leases storage space from a third-party. Base monthly rent, which was \$5,567 as of June 30, 2023, increases 3% annually. The lease expires February 2027. The exercise of lease renewal options is generally at the Museum's sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Leases with an initial term of 12 months or less are not recorded on the statements of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees. The Museum elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed the Museum to carry forward the historical lease classification.

The Museum has elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g. maintenance and operating services). Therefore, for that lease, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred.

The Museum determines if an arrangement is or contains a lease at contract inception. The Museum recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Museum determines the discount rate, the lease term, and the lease payments.

When the discount rate implicit in a lease is not readily determinable, the Museum calculates the lease liability using the risk-free rate.

The following summarizes the operating leases as of June 30, 2023:

| | | |
|---|----|----------------|
| Operating lease right-of-use assets | \$ | <u>230,014</u> |
| Current portion of operating lease liabilities | \$ | 61,627 |
| Operating lease liabilities, net of current portion | | <u>175,598</u> |
| | \$ | <u>237,225</u> |

The amounts contractually due on operating lease liabilities were as follows as of June 30, 2023:

| Year Ending June 30, | | |
|---|----|-----------------|
| <u>2024</u> | \$ | 67,494 |
| 2025 | | 69,181 |
| 2026 | | 70,911 |
| 2027 | | 41,962 |
| Total operating lease payments | | <u>249,548</u> |
| Less amount representing imputed interest | | <u>(12,323)</u> |
| Present value of lease liabilities | \$ | <u>237,225</u> |

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 6 - Leasing Arrangements, continued

The following summarizes the line items in the statements of functional expenses which include the components of lease expense for the year ended June 30, 2023:

| | |
|--|-------------------|
| Operating lease expense included in rentals expense | \$ 67,629 |
| Short-term lease expense included in rentals expense | <u>214,710</u> |
| Total lease expense | <u>\$ 282,339</u> |

Supplemental cash flow information related to leases for the year ended June 30, 2023 was as follows:

| | |
|---|------------|
| Cash paid for amounts included in measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 60,417 |
| Lease assets obtained in exchange for lease liabilities: | |
| Operating leases | \$ 290,127 |

Supplemental statements of financial position information related to leases was as follows as of June 30, 2023:

| | |
|--|-------|
| Weighted average remaining lease term in years | 3.7 |
| Weighted average discount rate | 2.88% |

Under previous leasing standards, future minimum lease payments for the non-cancellable operating leases at June 30, 2022 were as follows:

| Year Ending June 30, | |
|-------------------------|-------------------|
| <u>2023</u> | \$ 60,417 |
| 2024 | 67,494 |
| 2025 | 69,181 |
| 2026 | 70,911 |
| 2027 | <u>41,962</u> |
| | <u>\$ 309,965</u> |

Rent expense under all operating lease agreements was \$210,386 for the year ended June 30, 2022.

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 2.28% and 0.22% at June 30, 2023 and 2022, 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, 2023 and 2022. Bond issuance costs and the bond underwriter's discount are capitalized and amortized using the straight-line method over the term of the bonds.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 7 - Debt Obligations, continued

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 \$83,693 and \$133,910 at June 30, 2023 and 2022, respectively. The loans are payable in monthly installments of \$4,185 with 0% interest through February 2025.

As part of the 2021 Consolidated Appropriations Act passed on December 27, 2020, additional funds were allocated to the PPP and a second round of loans, commonly referred to as PPP2, became available. The Museum applied for, and received, \$743,721 on February 8, 2021. The Museum received forgiveness during the year ended June 30, 2022, for the full loan proceeds used to pay qualifying payroll expenses. The forgiveness balance is reported as PPP loan forgiveness revenue on the statements of activities.

Principal payments on debt obligations at June 30, 2023 are due as follows:

| Year Ending June 30, | |
|-------------------------|---------------------|
| 2024 | \$ 50,216 |
| 2025 | 33,477 |
| 2026 | - |
| 2027 | - |
| 2028 | - |
| Thereafter | 5,700,000 |
| Total | <u>\$ 5,783,693</u> |

Note 8 - Restrictions on Net Assets

Net assets with donor restrictions consist of the following:

| | 2023 | 2022 |
|--|----------------------|----------------------|
| Purpose Restrictions: | | |
| Unappropriated endowment earnings | \$ 9,681,478 | \$ 9,803,342 |
| Other special projects | 1,759,948 | 386,194 |
| Exhibits | 253,548 | 154,569 |
| Art acquisitions | 176,158 | 181,290 |
| Education | 44,072 | 44,072 |
| | <u>11,915,204</u> | <u>10,569,467</u> |
| Time Restricted for Future Periods: | | |
| Other special projects | 506,724 | 2,012,135 |
| General use | 113,083 | - |
| | <u>619,807</u> | <u>2,012,135</u> |
| Perpetual in Nature: | | |
| Institutional support endowments | 9,032,102 | 9,032,102 |
| Beneficial interest in assets held at The San Diego Foundation | 988,570 | 966,764 |
| | <u>10,020,672</u> | <u>9,998,866</u> |
| | <u>\$ 22,555,683</u> | <u>\$ 22,580,468</u> |

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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:

| | 2023 | 2022 |
|---------------------------------------|-------------------|-------------------|
| Satisfaction of Purpose Restrictions: | | |
| Other special projects | \$ 642,894 | \$ 72 |
| Exhibits | 106,439 | 92,449 |
| Art acquisitions | 10,450 | 7,186 |
| | <u>759,783</u> | <u>99,707</u> |
| Satisfaction of Time Restrictions: | | |
| General use | - | 183,185 |
| | <u>\$ 759,783</u> | <u>\$ 282,892</u> |

Note 9 - Revenue Recognition

Overview

The Museum earns revenue from contracts with customers, primarily through admissions, traveling exhibitions, store sales, café commissions and art deaccessions. Other streams shown as miscellaneous included in this standard include special events, education, concerts and miscellaneous activities.

Disaggregation of Revenue

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

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Performance obligations satisfied over time: | | |
| Traveling exhibitions | \$ 848,112 | \$ - |
| Performance obligations satisfied at a point in time: | | |
| Admissions | 1,949,062 | 1,754,119 |
| Store sales, net | 342,089 | 289,958 |
| Café commissions | 237,525 | 223,141 |
| Miscellaneous | 171,163 | 135,875 |
| Art deaccessions | 16,672 | 363,259 |
| | <u>\$ 3,564,623</u> | <u>\$ 2,766,352</u> |

Performance Obligations

Traveling exhibitions – Traveling exhibition revenue is recognized over the display period of the exhibit at each site. Certain contracts contain a liquidated damages clause, whereas if certain conditions are met six months prior to the display period, 50% of contract revenue is recognized at that point in time.

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.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 9 - Revenue Recognition, continued

Performance Obligations, continued

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

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

Art deaccessions – Art deaccession revenue is recognized at a single point in time when the piece of art is sold and transferred to the buyer.

Contract Balances

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

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

| | <u>2023</u> | | <u>2022</u> | | <u>2021</u> |
|---------------------|-------------|----|-------------|----|-------------|
| Accounts receivable | \$ 346,230 | \$ | 108,640 | \$ | 875,910 |

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, 2023 and 2022, the Museum contributed \$144,095 and \$122,872, 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 US GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity is subject to appropriation 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, 2023, the endowment net assets composition by type of fund consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| Board-designated endowment funds | \$ 47,180,716 | \$ - | \$ 47,180,716 |
| 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 | - | 988,570 | 988,570 |
| Accumulated investment gains | - | 9,681,478 | 9,681,478 |
| Total endowment funds | <u>\$ 47,180,716</u> | <u>\$ 19,702,150</u> | <u>\$ 66,882,866</u> |

Changes in endowment net assets for the year ended June 30, 2023 consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 48,304,156 | \$ 19,802,208 | \$ 68,106,364 |
| Transfer from operating fund | 14,908 | - | 14,908 |
| Appropriated expenditures | (5,295,499) | (1,747,682) | (7,043,181) |
| Investment return, net | 4,157,151 | 1,647,624 | 5,804,775 |
| Endowment net assets, end of year | <u>\$ 47,180,716</u> | <u>\$ 19,702,150</u> | <u>\$ 66,882,866</u> |

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 11 - Endowments, continued

At June 30, 2022, the endowment net assets composition by type of fund consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| Board-designated endowment funds | \$ 48,304,156 | \$ - | \$ 48,304,156 |
| 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 | - | 966,764 | 966,764 |
| Accumulated investment gains | - | 9,803,342 | 9,803,342 |
| Total endowment funds | <u>\$ 48,304,156</u> | <u>\$ 19,802,208</u> | <u>\$ 68,106,364</u> |

Changes in endowment net assets for the year ended June 30, 2022 consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 60,965,374 | \$ 24,360,086 | \$ 85,325,460 |
| Transfer from operating fund | 183,185 | - | 183,185 |
| Appropriated expenditures | (4,021,902) | (1,463,973) | (5,485,875) |
| Investment return, net | <u>(8,822,501)</u> | <u>(3,093,905)</u> | <u>(11,916,406)</u> |
| Endowment net assets, end of year | <u>\$ 48,304,156</u> | <u>\$ 19,802,208</u> | <u>\$ 68,106,364</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).

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 11 - Endowments, continued

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, 2023 and 2022 was 5.00% each year. Market value, for the purpose of calculating the spending policy, is based on the trailing 20 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.

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.

Two donors comprised 74% and one donor comprised 99% of promises to give at June 30, 2023 and 2022, respectively. One donor comprised 14% and two donors comprised 50% of contributions for the years ended June 30, 2023 and 2022, respectively.

Note 13 - Contingencies

Investments

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported on the statements of activities.

Litigation

From time to time, the Museum is subject to various litigation as a result of its ongoing business activities. Management believes that the outcome of any such litigation would not have a material adverse effect on the Museum's statements of financial position, results of operations, or liquidity.

Note 14 - Business Combinations

Effective July 1, 2023, the Museum acquired the Museum of Photographic Arts (MOPA), a California nonprofit corporation. The Museum and MOPA, as cultural institutions in Balboa Park, are both committed to inspiring and educating through the collection and presentation of the finest examples of art. The mission statements of the Museum and MOPA reflect the fact that the two cultural institutions have, throughout their organizational lifetimes, shared common goals and aspirations. The parties believe that there are economies of scale available by affiliating the MOPA operations and collections with the Museum's operations and collections. Following the acquisition, the MOPA collection is now known as the Museum of Photographic Arts at The San Diego Museum of Art or MOPA @ SDMA.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 14 - Business Combinations, continued

The Museum assumed certain trade payables, deferred revenue, and other liabilities associated with the assets being acquired. The following table summarizes the unaudited fair values of the assets acquired and liabilities assumed at the closing date:

| | <u>Unaudited</u> |
|---|---------------------|
| Cash | \$ 188,734 |
| Accounts receivable | 70,810 |
| Promises to give, net of discount on promises to give | 106,322 |
| Other assets | 22,855 |
| Property and equipment, net of accumulated depreciation | 1,553,777 |
| Investments | <u>1,661,415</u> |
| Total identifiable assets acquired | 3,603,913 |
| Accounts payable | 771 |
| Deferred revenue | 51,471 |
| Other liabilities | <u>1,685</u> |
| Total liabilities assumed | <u>53,927</u> |
| Net assets acquired | <u>\$ 3,549,986</u> |

Like the Museum, MOPA maintains collections of art that are significant in relation to its total assets but are not recognized on the statements of financial position based on meeting certain criteria per US GAAP. Certain net assets acquired have donor restrictions that are either temporary or permanent in nature. Audited information was not available at the time of issuance. As such, unaudited balances are disclosed.

SUPPLEMENTAL INFORMATION

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

Years Ended June 30, 2023 and 2022

| | June 30, 2023 | | |
|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Foundations | \$ 685,171 | \$ 524,401 | \$ 1,209,572 |
| Individual gifts | 977,985 | 114,333 | 1,092,318 |
| Special events | 1,036,913 | - | 1,036,913 |
| Corporate support | 500,028 | 40,285 | 540,313 |
| Trustee support | 177,773 | 156,037 | 333,810 |
| Grants | 60,000 | - | 60,000 |
| County of San Diego | 5,000 | - | 5,000 |
| Contribution box | 2,773 | - | 2,773 |
| | <u>\$ 3,445,643</u> | <u>\$ 835,056</u> | <u>\$ 4,280,699</u> |

| | June 30, 2022 | | |
|-------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Individual gifts | \$ 373,059 | \$ 1,757,027 | \$ 2,130,086 |
| Foundations | 454,655 | 593,289 | 1,047,944 |
| Special events | 1,006,912 | - | 1,006,912 |
| Trustee support | 172,060 | 25,870 | 197,930 |
| Corporate support | 172,305 | 23,187 | 195,492 |
| Grants | 45,000 | - | 45,000 |
| Contribution box | 2,650 | - | 2,650 |
| | <u>\$ 2,226,641</u> | <u>\$ 2,399,373</u> | <u>\$ 4,626,014</u> |