

Asian Art Museum

Combined Financial Statements

June 30, 2021
(With Comparative Totals for 2020)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Asian Art Museum
San Francisco, California

We have audited the accompanying combined financial statements of Asian Art Museum (a California nonprofit corporation) (the "Museum"), which comprise the combined statement of financial position as of June 30, 2021, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Asian Art Museum as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Asian Art Museum's 2020 combined financial statements, and our report dated November 30, 2020 expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.



Armanino^{LLP}
San Ramon, California

November 30, 2021

Asian Art Museum
Combined Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	2021	2020
ASSETS		
Assets		
Cash and cash equivalents	\$ 7,731	\$ 6,779
Short-term investments - restricted	6,474	6,672
Contributions receivable, net	7,705	12,520
Inventory, prepaids, and other assets	739	815
Investments held in trusts	1,289	1,127
Investments	126,317	110,190
Property and equipment, net	118,680	117,927
Total assets	\$ 268,935	\$ 256,030
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,501	\$ 2,335
Deferred revenue and deposits	877	793
Interest payable	607	626
Loan payable, net	78,969	81,345
Total liabilities	83,954	85,099
Net assets		
Without donor restrictions	54,622	49,689
With donor restrictions	130,359	121,242
Total net assets	184,981	170,931
Total liabilities and net assets	\$ 268,935	\$ 256,030

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum
Combined Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenues, gains, and other support				
Contributions and grants	\$ 10,191	\$ 3,389	\$ 13,580	\$ 23,783
City appropriation	9,814	-	9,814	11,235
Admissions	148	-	148	687
Membership	1,258	-	1,258	1,405
Investment income, net	12,802	9,690	22,492	2,127
Change in fair value of split interest agreements	137	-	137	(12)
Tours and special events	376	-	376	1,369
Museum shop, net of cost of goods sold	210	-	210	454
Facilities rental gross profit	2	-	2	369
Other	<u>23</u>	<u>-</u>	<u>23</u>	<u>57</u>
Total revenues, gains, and other support	34,961	13,079	48,040	41,474
Net assets released from restriction	<u>3,962</u>	<u>(3,962)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>38,923</u>	<u>9,117</u>	<u>48,040</u>	<u>41,474</u>
Functional expenses				
Program	23,517	-	23,517	27,521
Management and general	6,577	-	6,577	7,628
Fundraising	<u>3,896</u>	<u>-</u>	<u>3,896</u>	<u>5,263</u>
Total functional expenses	<u>33,990</u>	<u>-</u>	<u>33,990</u>	<u>40,412</u>
Change in net assets	4,933	9,117	14,050	1,062
Net assets, beginning of year	<u>49,689</u>	<u>121,242</u>	<u>170,931</u>	<u>169,869</u>
Net assets, end of year	<u>\$ 54,622</u>	<u>\$ 130,359</u>	<u>\$ 184,981</u>	<u>\$ 170,931</u>

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum
Combined Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	Program	Management and General	Fundraising	2021 Total	2020 Total
Advertising and promotion	\$ 786	\$ -	\$ 243	\$ 1,029	\$ 583
Art acquisitions	717	-	-	717	410
Bad debt	366	-	-	366	2
Building maintenance	596	389	-	985	2,475
Conferences and meetings	10	2	2	14	283
Depreciation and amortization	2,676	648	574	3,898	3,824
Employee benefits	1,514	364	308	2,186	2,402
Fees for services	1,912	407	181	2,500	3,097
Information and technology	306	222	1	529	817
Insurance	391	90	3	484	388
Interest	2,573	623	550	3,746	3,867
Meals and entertainment	3	-	97	100	286
Miscellaneous	12	1	1	14	13
Office expense	694	257	27	978	2,093
Participation fees	9	-	-	9	299
Payroll taxes	671	137	165	973	1,100
Printing and publication	134	2	161	297	634
Rent	199	59	1	259	244
Retirement plan contributions	741	179	159	1,079	1,421
Salaries and wages	8,800	2,867	1,398	13,065	14,632
Shipping and freight	175	4	20	199	383
Supplies	93	38	1	132	603
Travel	43	1	4	48	217
Utilities	96	287	-	383	339
	<u>\$ 23,517</u>	<u>\$ 6,577</u>	<u>\$ 3,896</u>	<u>\$ 33,990</u>	<u>\$ 40,412</u>

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum
 Combined Statement of Cash Flows
 For the Year Ended June 30, 2021
 (With Comparative Totals for 2020)
 (In thousands)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 14,050	\$ 1,062
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	3,898	3,824
Endowment contributions	(1,321)	(6,599)
Non-cash interest expense	14	14
Endowment Reclassification	2,800	-
Net realized and unrealized gains on investments	(25,159)	(1,731)
Investments held in trusts	(162)	(44)
Changes in operating assets and liabilities		
Accounts and other receivables	276	135
Contributions receivable	4,815	1,570
Inventory, prepaids, and other assets	76	7
Accounts payable and accrued expenses	1,210	(1,015)
Interest payable	(18)	(17)
Deferred revenue and deposits	84	(160)
Net cash provided by (used in) operating activities	563	(2,954)
Cash flows from investing activities		
Additions of property and equipment and construction in progress	(4,648)	(18,046)
Purchases of investments	(9,070)	(4,602)
Proceeds from sales/maturities of investments	15,176	24,588
Net cash provided by investing activities	1,458	1,940
Cash flows from financing activities		
Endowment contributions	1,321	6,599
Principal payments on loan payable	(2,390)	(2,270)
Net cash provided by (used in) financing activities	(1,069)	4,329
Net increase in cash and cash equivalents	952	3,315
Cash and cash equivalents, beginning of year	6,779	3,464
Cash and cash equivalents, end of year	\$ 7,731	\$ 6,779

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 3,766	\$ 3,885
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The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS

Founded in 1959, the Asian Art Museum of San Francisco (the "Museum") opened in 1966 to house the Avery Brundage Collection and other Asian art collections of the city and county of San Francisco (the "City"). The Museum is governed by the Asian Art Commission (the "Commission"), established under the City charter, and by the Asian Art Museum Foundation of San Francisco (the "Foundation"). The Commission members are appointed by the mayor of the City. The Foundation's board of trustees (the "Trustees") is nominated by the Foundation's Committee on Trustees and elected by the Trustees. The Foundation supports the Museum by raising funds for exhibitions and public programs, including school programs, conservation, the library, special exhibitions, acquisitions, and other needs of the Museum, not funded by the City.

In September 2017, the Museum unveiled details of a capital campaign to invest in the Museum's future; one that will transform public engagement with the collection, exhibitions and cultural programs offered by the city-owned Museum. In May 2018, construction began on a new 13,000 square foot exhibition Pavilion and Art Terrace added to the east Hyde Street side of the Museum's Civic Center home as well as other changes to existing galleries and public spaces. The campaign also raised funds for exhibitions, programs and endowments. The campaign officially ended December 31, 2019 and raised approximately \$103 million.

As of June 30, 2021, 68% of the Museum's employees were Foundation employees and 32% were City employees. At June 30, 2021, approximately 52% of the Foundation employees and 100% of the City employees were covered by collective bargaining agreements. All Foundation employees except for supervisors, managers, or confidential employees are covered under the Service Employees International Union 1021 collective bargaining agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The combined financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable for not-for-profit organizations. Accordingly, net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The combined financial statements include the operating and other transactions of the department of the City that relate to the Asian Art Museum of San Francisco and the activities of the Foundation (collectively, the "Museum").

Net assets

The Museum's combined financial statements are presented on the basis of accounting for not-for-profit organizations, with separate accounting for net assets without donors restrictions and net assets with donor restrictions in accordance with accounting principles generally accepted in the United States of America as follows:

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets (continued)

- *Net assets without donor restrictions* - Net asset 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 Trustees. Net assets without donor restrictions may be designated for specific purposes by the 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 the 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Museum classifies the support as without donor restrictions.

Net assets with donor restrictions also include accumulated appreciation of permanently restricted endowment funds that have not been appropriated by the Trustees in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In addition, net assets with donor restrictions includes contributions to be held as investments in perpetuity as directed by the donor. The income from these investments is primarily available to support activities of the Museum as determined by the donor. Net assets with donor restrictions include endowments, which are assets restricted by the donor to be held in perpetuity. The endowment must be expended in accordance with the terms and conditions established by the donors.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law.

Cash and cash equivalents

Cash and cash equivalents consist of demand accounts and highly liquid investments purchased with an original maturity of three months or less.

Short-term investments - restricted

The short-term investments restricted for the loan reserve are required to be held in a reserve fund and are related to the loan payable. The short-term investments are invested in money market funds and federal obligations that have terms of less than one year and will be held to maturity.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment and fair value measurements

Investments are reflected in the combined statement of financial position at fair value with changes in realized and unrealized gains and losses resulting from changes in fair value reflected in the combined statement of activities as investment gain or loss. Publicly traded investments in active markets are reported at the market closing. Investment transactions are recorded on a trade-date basis (for publicly traded investments) or upon closing of the transaction (for private investments).

- *Level 1* - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments, which would generally be included in Level I, includes listed equity securities.
- *Level 2* - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not identical as those used in Level I. These inputs may include quoted prices for identical instruments on an inactive market. Fair value is determined through the use of models or other valuation methodologies.
- *Level 3* - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation by management. The types of investments, which would generally be included in this category include debt and asset-backed securities, forward contracts, long-term debt securities, multi-strategy holding company swaps and warrants, real estate, and equity securities issued by private entities.

The Museum uses the Net Asset Value ("NAV") to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare the financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. See Note 4 for investments presented within the fair value hierarchy.

Investments held in trusts

Charitable remainder trusts are stated at estimated fair value, less the present value of estimated future payments to the income beneficiaries based on the composition of investment portfolios, life expectancies from certain mortality tables, and the discount rate applicable in the years the trusts were established.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments held in trusts (continued)

Investments held in trusts include the fair value of a trust held in perpetuity.

Contributions receivable

Contributions receivable consists of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable in the year in which they are received. The risk free rates used for the year ending June 30, 2021 range from 0.04% to 2.84%. Amortization of the discounts is included in contributions and grants revenue. Conditional promises to give are not recorded as revenue until the conditions are substantially met. The Museum had one conditional promise, a matching pledge, of \$150 as of June 30, 2021. The Museum closely monitors receivables. The Museum's uncollectible contributions receivables have historically not been significant.

Inventory

Inventory is stated at the lower of average cost or market. Inventory consists of retail store merchandise available for sale on June 30, 2021.

Revenue recognition

Gifts, grants and bequests are recognized as revenue when received or unconditionally promised. The Museum reports gifts of cash and other assets as support with donor restrictions if such gifts are received with donor restrictions that limit for what purposes or when the donated assets can be used. When a donor restriction is met, such net assets are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Effective July 1, 2020, the Museum adopted Topic 606. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, five basic criteria must be met before revenue can be recognized.

1. Identification of the contract with the customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

4. Allocation of the transaction price to the performance obligation in the contract; and
5. Recognition of revenue when, or as, the entity satisfied a performance obligation.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years. Contributed property and equipment are recorded at fair value at the date of donation.

Title to the land, buildings, and improvements of the Museum rests with the City. Under the terms of the City Charter, no one other than the City can hold title to the building and the building cannot be sold or converted for the benefit of the Museum. The improvements to the City building which houses the Museum's collections and in which the Museum operates were funded entirely by donations and bond proceeds (see Note 5).

Deferred loan costs

Deferred loan costs are amortized over the term of the related loan payable based on the effective interest rate method. Interest expense related to loan costs for the year ended June 30, 2021 was \$14.

Deferred revenue

Deferred revenue consists primarily of fees received for future exhibitions, advances, ticket sales, and unearned membership dues.

Collections

The Museum's permanent collections represent more than 40 Asian countries and span 6,000 years of Asian history. Objects are held for educational, research, and curatorial purposes. Under the Museum's Collections Management Policy, all objects are catalogued, preserved, and provided with ongoing care. Activities verifying their existence and assessing their condition are performed regularly. Title to the permanent collection of works of art rests with the City. If accepted into the permanent collection, donated art objects become the property of the City and are not recorded in the Museum's combined financial statements. Purchases of art are recorded as an expense in the Museum's combined statement of activities and changes in net assets. The Museum deaccessions objects deemed no longer relevant to the permanent collection in accordance with the Museum's Collections Management Policy. Proceeds from deaccessions are used to acquire other objects for the collection. The Museum deaccessioned two Thai lintels during the year ended June 30, 2021.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services

The Museum recognizes contribution revenue for certain services received at the fair value of the services that (a) create or enhance nonfinancial assets or (b) require specialized skills that would need to be purchased, if not donated. During the year ended June 30, 2021, contributed services recognized in the combined statement of activities and changes in net assets as contributions and grants were \$39, and the corresponding expenses were included in legal, marketing, travel, and advertising services. In addition, the Trustees and a substantial number of volunteers have donated significant amounts of time to develop the Museum's program and objectives. The value of donated volunteer services has not been recognized in the accompanying combined financial statements because such volunteer services do not meet the above recognition criteria.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts and other receivables, contributions receivable, accounts payable and accrued expenses at June 30, 2021 approximates the carrying amount because of the relatively short-term maturities of these financial instruments.

Concentration of credit risk

Financial instruments that potentially subject the Museum to credit risk consist primarily of cash and cash equivalents, investments, and receivables. The Museum maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include demand accounts and highly liquid investments purchased with an original maturity of three months or less. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. The Museum attempts to limit its credit risk associated with investments by utilizing outside investment managers to place the Museum's investments with highly rated corporate and financial institutions.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. Expenses applicable to more than one program or activity have been allocated among the programs, supporting services, and enterprise activities based on headcounts and square footage and on estimates made by the Museum's management.

Comparative financial information

The combined financial statements and related footnotes, include certain prior-year comparative information summarized in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with the Museum's combined financial statements for the year ended June 30, 2020, from which the summarized information is derived.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Museum has been classified as a publicly supported tax-exempt organization that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Revenue and Taxation Code Section 23701(d). The Museum believes that no liabilities are required to accrue for uncertain tax positions as of June 30, 2021.

Use of estimates

The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of new accounting pronouncement

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”

Effective July 1, 2020, the Museum adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The adoption of ASU 2014-09 did not have a material impact on the Museum's financial statements..

Subsequent events

The Museum has evaluated subsequent events through November 30, 2021, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Museum's financial statements.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2021, consisted of the following:

Less than one year	\$ 5,002
One to five years	<u>2,840</u>
	7,842
Less: allowance for doubtful contributions receivable	(70)
Less: discount on multi-year contributions receivable	<u>(67)</u>
	<u><u>\$ 7,705</u></u>

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets				
Short-term investments - restricted	<u>\$ -</u>	<u>\$ 6,474</u>	<u>\$ -</u>	<u>\$ 6,474</u>
	-	6,474	-	6,474
Investments				
Cash equivalents	29,105	-	-	29,105
Large cap equity securities	24,504	-	-	24,504
Other equity securities	31,661	-	-	31,661
Mutual funds - bonds	5,492	-	-	5,492
Commercial real estate	<u>-</u>	<u>-</u>	<u>4,949</u>	<u>4,949</u>
	<u>90,762</u>	<u>-</u>	<u>4,949</u>	<u>95,711</u>
	<u><u>\$ 90,762</u></u>	<u><u>\$ 6,474</u></u>	<u><u>\$ 4,949</u></u>	102,185
Investments measured at net asset value*				<u>31,895</u>
				<u><u>\$ 134,080</u></u>

*In accordance with Subtopic 820-10, certain investments are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statement of financial position.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

4. INVESTMENTS (continued)

The changes in investments classified as Level 3 for the year ended June 30, 2021 are as follows:

Level 3 - Commercial Real Estate	
Balance, beginning of year	\$ 4,938
Change in value	<u>11</u>
Balance, end of year	<u>\$ 4,949</u>

The quantitative commercial information about significant unobservable inputs related to Level 3 alternative investments in real estate investments used as of June 30, 2021, is as follows:

Level 3 alternative investment in real estate investments:

Product	Fair Value	Valuation Techniques	Unobservable Inputs	Assumptions
Commercial real estate (d)	\$ 4,949	Market Valuation	Rent growth rate	3%

Investment strategy and redemption information

The following table summarizes the investment strategy types and various features of the investment portfolio for investments that are recorded at net asset value as a practical expedient as of June 30, 2021. The Museum has commitments under the associated investment agreements to make additional capital contributions as noted:

	Net Asset Value	Unfunded Commitments	Redemption Term	Redemption Restrictions
Diversified hedge funds (a)	\$ 19,209	\$ -	Quarterly - annually	45 - 595 days
Private equity funds (b)	12,508	5,976	N/A	N/A
Real estate funds (c)	<u>178</u>	<u>2,806</u>	N/A	N/A
	<u>\$ 31,895</u>	<u>\$ 8,782</u>		

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

4. INVESTMENTS (continued)

Investment strategy and redemption information (continued)

- (a) This category includes investments in hedge funds that have an investment objective to seek consistent long-term growth of capital with reduced volatility. The funds invest in a diversified portfolio of global natural resource securities, commodities, and real assets as well as global, multistrategy, event-driven funds focused on producing strong risk-adjusted returns with low volatility relative to the stock market and relatively low correlation to both the equity and debt markets. These funds have the ability to make principally noncontrol investments in debt, equity, or other securities or indebtedness of (i) companies in financial distress or undergoing a turnaround; (ii) companies in bankruptcy, organization, or liquidation; (iii) companies that are undervalued because of discrete extraordinary events; or (iv) companies whose securities are deemed to be undervalued. The fair values of these hedge funds have been determined using the NAV per share of the investment funds.
- (b) The private equity category includes several funds that invest in a broad range of privately owned domestic and foreign companies. The nature of these funds is that distributions are received through the liquidation of the underlying assets of the funds. Investments may include common and preferred stocks and warrants, convertible notes, and partnership interests. Some funds are established for the purpose of seeking capital appreciation through early-to-late-stage venture capital investments in companies in the biotechnology industry, including those focused in the pharmaceuticals, medical devices, genetics, drug delivery, diagnostics, energy and natural resources, media, retail, telecommunications, financial services, and health care information technology sectors. The fair values of these private equity funds have been determined using the NAV per share of the investment funds.
- (c) The real estate partnerships were formed for the purpose of acquiring, investing in, developing, managing, operating, leasing, owning, financing, holding, and selling office buildings and mixed-use projects and investing in debt or equity instruments related to similar real estate projects. The partnerships may also invest in real estate as a long-term operating business set against a backdrop of powerful market cycles driven primarily by capital flows. The fair values of these real estate funds have been determined using the NAV per share of the investment funds. Investments representing 100% of the value of the investment in this category cannot be redeemed because the investments include restrictions.
- (d) The investment in commercial real estate represents the Museum's partial interest in a commercial building. The fair value of the interest has been determined using a 3rd party commercial real estate appraisal.

Asian Art Museum
Notes to Combined Financial Statements
June 30, 2021
(In thousands)

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Buildings	\$ 175,265
Office equipment	5,523
Art storage and display cases	7,177
Computer equipment	736
Furniture and fixtures	<u>3,094</u>
	191,795
Less: accumulated depreciation	<u>(73,115)</u>
	<u><u>\$ 118,680</u></u>

Depreciation and amortization expense amounted to \$3,898 for the year ended June 30, 2021.

6. LOAN PAYABLE

The rehabilitation of the Museum building (the "Project") was initially financed through a combination of public and private financing, including the proceeds of approximately \$40,000 in City General Obligation Bonds and \$107,445 of Revenue Bonds, Series 2000 (the "2000 IBank Bonds") issued by California Infrastructure and Economic Development Bank ("IBank"). Total costs related to the Project were approximately \$180,000.

As a result of a settlement agreement, the Museum restructured the 2000 IBank Bonds under the terms of a February 1, 2011, loan agreement to \$96,985. Specifically, on February 11, 2011, the California Enterprise Development Authority (the "Authority") obtained a loan from JPMorgan Chase Bank, National Association ("JPMorgan") in an aggregate principal amount of \$96,985, plus costs related thereto, for the purpose of the refinancing, and loaned the proceeds thereof to the Museum, all pursuant to that certain loan agreement dated as of February 11, 2011, between JPMorgan, the Authority, and the Museum (the "Loan Agreement" or "2011 Loan").

The principal amount of the loan under the Loan Agreement bears interest rate at the rate of 4.60% per annum. Under certain circumstances provided for in the Loan Agreement, the loan bears interest at the default rate of 6.60% per annum. The Loan Agreement provides for the accrual of interest on the aggregate principal balance of the loan from the February 11, 2011, closing date to the February 1, 2040, maturity date, or earlier prepayment, as provided therein. Such interest is payable by the Museum quarterly, on each quarterly installment date, commencing May 1, 2011, in arrears on or prior to such date (unless the loan is bearing interest at the default rate, whereupon interest becomes payable on demand).

The Loan Agreement also provides that the principal amount of the loan is to be paid in quarterly installments, on each quarterly installment date, which commenced on May 1, 2012. The interest payments assume that all payments are made by the Museum on schedule.

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6. LOAN PAYABLE (continued)

The short-term investment-restricted at June 30, 2021 consists of \$6,474 of investments, which is equivalent to one year's debt service on the 2011 Loan, at June 30, 2021, and is required to be held in a reserve fund through the maturity date of the 2011 Loan. The short-term investment is invested in money market funds and federal obligations.

Interest expense for the year ended June 30, 2021 was \$3,746.

Future principal payments due under the loan payable at June 30, 2021 is as follows:

<u>Year ending June 30,</u>	
2022	\$ 2,500
2023	2,620
2024	2,735
2025	2,870
2026	3,010
Thereafter	<u>65,495</u>
	79,230
Less: unamortized debt issuance costs	<u>(261)</u>
	<u><u>\$ 78,969</u></u>

7. RETIREMENT PLAN

The Museum participates in a defined contribution plan ("the Plan") covering all eligible Foundation employees. The Plan stipulates mandatory contributions to be made by both participants and the Museum. The Museum employees are fully vested in the Museum's contributions after five years of credited service. The City participates in a defined benefit plan ("the City Plan"). The City Plan covers all eligible City employees, including certain Museum employees, and stipulates mandatory contributions to City employees, including certain Museum employees, and stipulates mandatory contributions to be made by participants under the City charter and provisions of the current memoranda of understanding. More information on the City Plan can be found on the City website.

The Museum's contributions to the retirement plan were \$26 for the Museum and \$1,053 for the City for the year ended June 30, 2021.

8. COMMITMENTS AND CONTINGENCIES

The Museum leases storage space and certain equipment under operating and capital leases, certain of which are renewable.

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Notes to Combined Financial Statements
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8. COMMITMENTS AND CONTINGENCIES (continued)

Future minimum lease payments for all noncancelable operating leases in excess of one year as of June 30, 2021, are as follows:

<u>Year ending June 30,</u>	
2022	\$ 87
2023	<u>22</u>
	<u>\$ 109</u>

Future minimum lease payments for all noncancelable capital leases in excess of one year as of June 30, 2021, are as follows:

<u>Year ending June 30,</u>	
2022	<u>\$ 8</u>
	<u>\$ 8</u>

The Museum paid rent in the amount of \$617 for storage space and small equipment for the year ended June 30, 2021.

The Museum has \$8,782 in unfunded commitments in alternative investments as of June 30, 2021.

The Museum is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on the Museum's combined statement of financial position or its combined statement of activities and changes in net assets.

9. RELATED PARTY

The City provided \$9,814 of direct operational funding for the year ended June 30, 2021. At June 30, 2021, \$639 included in accounts payable and accrued expenses is due to the City.

Other related-party transactions included gross contributions from Commission members and Trustees, which totaled approximately \$2,950 for the year ended June 30, 2021. At June 30, 2021, contributions receivable from Commission members and Trustees totaled \$593.

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10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets subject to donor restrictions consisted of the following:

General	\$ 17,961
Programs and salaries	55,550
Acquisition and conservation	7,832
Capital campaign	<u>49,016</u>
	<u>\$ 130,359</u>

Net assets subject to donor restrictions released from restriction during the year were as follows:

Programs and salaries	\$ 1,293
Acquisition and conservation	1,100
Endowment payout	<u>1,569</u>
	<u>\$ 3,962</u>

11. ENDOWMENT

The Museum's endowment consists of individual donor-restricted endowment funds and funds designated by the Trustees to function as endowments. The net assets associated with endowment funds, including those funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Museum is subject to UPMIFA and thus, classifies certain amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Trustees appropriate such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Trustees have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date, unless the donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Museum considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Museum has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

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11. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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

Return objectives and risk parameters

The Museum has adopted an investment policy statement for endowment assets that attempts to provide a predictable stream of funding for programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity, as well as Trustees-designated funds. Under this policy, as approved by the Trustees, the Museum invests endowment assets in a manner that is intended to yield a long-term rate of return of approximately 6% annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2021. The Museum has interpreted UPMIFA and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

Spending policy

The Museum's spending policy for its endowment defines the timing and amount of funds available to be transferred to operations. The objective of the spending policy is to provide a predictable and consistent source of support of the Museum's operations calculated in a manner that permits efficient and timely preparation of operating budgets.

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11. ENDOWMENT (continued)

Spending policy (continued)

The Museum's spending policy for the endowment (the "Endowment Policy") permits withdrawals from the endowment. Endowment withdrawals are budgeted on an annual basis in an amount equal to a percentage ranging from 4% to 7.5% of the previous three-year average of the endowment's total balance. For fiscal years 2012 through 2020, the Museum has withdrawn 4% annually. For fiscal year 2021, the Museum withdrew 4.5%. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the Museum's endowment funds. Amounts withdrawn from the endowment under the Endowment Spending Policy are for the Museum's programs and operating expenses, allocated in accordance with the restrictions pertaining to those funds. The timing and amounts of withdrawals are determined by the Museum's management in consultation with the Budget and Finance Committee and the Executive Committee. Investment-related expenses are charged separately against the endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow in a manner consistent with its intention to maintain the purchasing power of the endowment assets, as well as to provide additional growth through new gifts. Depending upon market conditions and the needs and available resources of the Museum, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Trustee-designated endowment funds	\$ 10,984	\$ -	\$ 10,984
Donor-restricted endowment funds	<u>-</u>	<u>71,570</u>	<u>71,570</u>
	<u>\$ 10,984</u>	<u>\$ 71,570</u>	<u>\$ 82,554</u>

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Notes to Combined Financial Statements
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11. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2020	\$ 6,610	\$ 64,928	\$ 71,538
Investment income, net	<u>5,064</u>	<u>9,690</u>	<u>14,754</u>
Total investment Income, net	5,064	9,690	14,754
Contributions	-	1,321	1,321
Reclassifications	-	(2,800)	(2,800)
Appropriation of net assets	<u>(690)</u>	<u>(1,569)</u>	<u>(2,259)</u>
	<u>4,374</u>	<u>6,642</u>	<u>11,016</u>
Balance, June 30, 2021	<u>\$ 10,984</u>	<u>\$ 71,570</u>	<u>\$ 82,554</u>

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, 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). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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Notes to Combined Financial Statements
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11. ENDOWMENT (continued)

Relationship of spending policy to investment objectives

Description of amount classified as endowment net assets:

The portion of perpetual endowment funds not participating in the investment pool that is required to be held in perpetuity either by explicit donor stipulation or purpose restrictions or UPMIFA	\$ 4,949
The portion of perpetual endowment funds participating in the investment pool that is required to be held in perpetuity either by explicit donor stipulation or subject to a time restriction or UPMIFA	42,203
The portion of perpetual endowment funds participating in the investment pool that is required to be held until time or purpose restrictions imposed by explicit donor stipulations are satisfied	24,418
The portion of endowment funds participating in the investment pool that have been endowment-designated by the Museum's Board of Trustees and are free from any explicit donor stipulations	<u>10,984</u>
	<u>\$ 82,554</u>

12. RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus occurred in Asia and spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. Following California Governor Gavin Newsom's executive order cancelling large gatherings, the Museum closed its public operations and offices beginning March 14, 2020 with the exception of certain essential functions, negatively impacting revenues. The Museum remained closed until October 2020, was required to close again in December 2020, then re-opened in March 2021.

Future potential impacts of COVID-19 will likely include continued limitations on the number of visitors, continued disruptions or restrictions on employees' ability to work on-site, impairment of the Museum's revenues, and restrictions on the ability to host events and volunteers. Other impacts on the Museum's operations could include, but are not limited to, further disruptions to the global capital and financial markets and impacts on the workforces.

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12. RISKS AND UNCERTAINTIES (continued)

In April 2020, the Museum received proceeds of \$2,284 from a promissory note issued by East West Bank, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration ("SBA"). The term of the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness is determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. During the year ended June 30, 2020, the Museum believed that it would likely qualify for a full forgiveness. On June 14, 2021, the Museum formally received the full forgiveness. The proceeds from the PPP loan was recorded as contributions and grant revenue in the accompanying combined statement of activities for the year ended June 30, 2020.

In January 2021, the Museum received proceeds of \$2,000 from a second promissory note issued by East West Bank, under the Paycheck Protection Program ("PPP"). The term of the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. As of June 30, 2021, the Museum believed that it would likely qualify for a full forgiveness, and on August 26, 2021, formally received the full forgiveness. The proceeds from the PPP loan was recorded as contributions and grant revenue in the accompanying combined statement of activities for the year ended June 30, 2021.

13. LIQUIDITY

Endowment funds consist of donor-restricted endowments and a Trustee-designated endowment. Income from donor-restricted endowments is primarily restricted for specific purposes and, therefore, is not available for general expenditure. Annual appropriations from the Trustee-restricted endowment are determined by the Trustees based on the factors including the operational needs of the Museum.

As part of the Museum's liquidity management, it has a policy to structure its financial needs as its general expenditures, liabilities, and other obligations come due. In addition, the Museum invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Museum maintains a Trustee-designated endowment of approximately \$10.98 million. Although the Museum does not intend to spend from its Trustee-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its Trustee-designated endowment could be made available if necessary. However, both the Trustee-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 4 and Note 11 for disclosures about investments).

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13. LIQUIDITY (continued)

The Museum's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 7,731
Contributions receivable to be received within one year without restrictions	1,501
Investments	<u>134,080</u>
	143,312
Net assets with donor restrictions	<u>(130,359)</u>
	<u>\$ 12,953</u>

The Museum has financial assets available at June 30, 2021 to cover approximately 5.2 months of operating expenses based on average monthly expenses incurred of \$2,508 for the fiscal year ended June 30, 2021. Operating expenses excludes depreciation and amortization, and includes costs currently paid by the City.