

Financial Report
San Diego Museum of Man
dba



June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
San Diego Museum of Man
dba Museum of Us
San Diego, California

We have audited the accompanying financial statements of the San Diego Museum of Man, dba Museum of Us (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Museum of Man, dba Museum of Us as of June 30, 2020, 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.

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San Diego Museum of Man
dba Museum of Us
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Report on Summarized Comparative Information

We have previously audited the San Diego Museum of Man, dba Museum of Us' 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
December 14, 2020

**SAN DIEGO MUSEUM OF MAN
DBA MUSEUM OF US**

**STATEMENT OF FINANCIAL POSITION
June 30, 2020**

(With Summarized Financial Information for June 30, 2019)

	2020	2019 (Note 13)
ASSETS		
Cash and cash equivalents	\$ 564,506	\$ 30,966
Grants and other receivables	56,864	340,775
Prepaid expenses and other assets	14,597	20,512
Investments	4,522,786	5,558,673
Property and equipment, net	1,465,264	1,640,874
Total assets	\$ 6,624,017	\$ 7,591,800
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 9,370	\$ 118,675
Accrued expenses	134,444	198,015
Refundable advance	628,000	-
Deferred revenue	25,175	18,937
Total liabilities	796,989	335,627
Net assets:		
Without donor restrictions	4,896,971	6,513,212
With donor restrictions	930,057	742,961
Total net assets	5,827,028	7,256,173
Total liabilities and net assets	\$ 6,624,017	\$ 7,591,800

**SAN DIEGO MUSEUM OF MAN
DBA MUSEUM OF US**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2020
(With Summarized Financial Information for Year Ended June 30, 2019)**

	Without Donor Restrictions	With Donor Restrictions	Total	2019 (Note 13)
<u>Operating Activities</u>				
SUPPORT AND REVENUE				
Admissions and memberships	\$ 998,753	\$ -	\$ 998,753	\$ 2,028,431
Contributions and grants	366,766	397,096	763,862	710,478
Governmental grants	367,554	-	367,554	546,715
In-kind contributions	76,615	-	76,615	90,531
Other income	43,876	-	43,876	45,412
Museum store sales	26,961	-	26,961	58,052
Museum events and rental income	82,268	-	82,268	143,130
Satisfaction of program restrictions	212,736	(212,736)	-	-
Total support and revenue	<u>2,175,529</u>	<u>184,360</u>	<u>2,359,889</u>	<u>3,622,749</u>
OPERATING EXPENSES				
Program expenses:				
Exhibits	2,007,329	-	2,007,329	2,655,411
Curatorial	454,460	-	454,460	594,531
Education	437,158	-	437,158	541,978
Total program expense	<u>2,898,947</u>	<u>-</u>	<u>2,898,947</u>	<u>3,791,920</u>
Supporting services:				
General and administrative	661,462	-	661,462	808,513
Fundraising	313,729	-	313,729	421,701
Total expenses	<u>3,874,138</u>	<u>-</u>	<u>3,874,138</u>	<u>5,022,134</u>
Operating support and revenue in (deficit) excess of expenses	<u>(1,698,609)</u>	<u>184,360</u>	<u>(1,514,249)</u>	<u>(1,399,385)</u>
<u>Nonoperating Activities</u>				
Net realized and unrealized				
(loss) gain on investments	(48,370)	-	(48,370)	70,033
Investment income	144,919	2,736	147,655	211,991
Investment fees	(14,181)	-	(14,181)	(17,342)
Total nonoperating activities	<u>82,368</u>	<u>2,736</u>	<u>85,104</u>	<u>264,682</u>
Change in net assets	(1,616,241)	187,096	(1,429,145)	(1,134,703)
NET ASSETS AT BEGINNING OF YEAR	<u>6,513,212</u>	<u>742,961</u>	<u>7,256,173</u>	<u>8,390,876</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,896,971</u>	<u>\$ 930,057</u>	<u>\$ 5,827,028</u>	<u>\$ 7,256,173</u>

**SAN DIEGO MUSEUM OF MAN
DBA MUSEUM OF US
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020
(With Summarized Financial Information for the Year Ended June 30, 2019)**

	Program Expenses				Supporting Services			Total	2019 (Note 13)
	Exhibits	Curatorial	Education	Total Program Expenses	General and Administrative	Fund- raising	Total Supporting Services		
Salaries and wages	\$ 1,107,146	\$ 251,255	\$ 335,557	\$ 1,693,958	\$ 358,120	\$ 229,436	\$ 587,556	\$ 2,281,514	\$ 2,739,311
Payroll taxes and employee benefits	231,904	50,114	63,393	345,411	49,205	45,230	94,435	439,846	494,995
Total salaries and related expenses	1,339,050	301,369	398,950	2,039,369	407,325	274,666	681,991	2,721,360	3,234,306
Professional fees and outside services	69,696	61,352	15,313	146,361	80,330	8,143	88,473	234,834	628,287
Office expense	105,407	28,381	7,331	141,119	51,753	8,858	60,611	201,730	183,661
Facilities and maintenance	123,463	33,705	6,487	163,655	20,901	4,931	25,832	189,487	289,799
Depreciation	162,740	13,246	5,677	181,663	3,785	3,784	7,569	189,232	261,702
In-Kind	24,681	-	-	24,681	51,934	-	51,934	76,615	-
Fees and other charges	60,112	-	1,927	62,039	-	1,927	1,927	63,966	89,660
Advertising and marketing	61,314	-	-	61,314	-	-	-	61,314	112,076
Exhibit and event costs	36,650	-	72	36,722	111	7,100	7,211	43,933	73,066
Conferences, meetings and travel	1,888	7,729	441	10,058	18,330	3,826	22,156	32,214	52,962
Miscellaneous	5,958	6,372	-	12,330	14,871	58	14,929	27,259	35,615
Professional development and training	3,939	2,306	960	7,205	12,122	436	12,558	19,763	32,547
Museum store merchandise	12,431	-	-	12,431	-	-	-	12,431	28,453
Total	<u>\$ 2,007,329</u>	<u>\$ 454,460</u>	<u>\$ 437,158</u>	<u>\$ 2,898,947</u>	<u>\$ 661,462</u>	<u>\$ 313,729</u>	<u>\$ 975,191</u>	<u>\$ 3,874,138</u>	<u>\$ 5,022,134</u>

**SAN DIEGO MUSEUM OF MAN
DBA MUSEUM OF US**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2020**

(With Summarized Financial Information for Year Ended June 30, 2019)

	2020	2019 (Note 13)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,429,145)	\$ (1,134,703)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	189,232	261,702
Net realized and unrealized gain (loss) from investments	48,370	(70,033)
Change in operating assets and liabilities:		
Grants and contracts receivable	283,911	(62,679)
Prepaid expenses and other assets	5,915	3,099
Accounts payable	(109,305)	(74,064)
Accrued expenses	(63,571)	(19,474)
Refundable advance	628,000	-
Deferred revenue	6,238	(5,979)
Net cash used in operating activities	(440,355)	(1,102,131)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments, net	885,100	1,234,716
Purchase of property and equipment	(13,622)	(140,208)
Net cash provided by investing activities	871,478	1,094,508
Change in cash and cash equivalents	431,123	(7,623)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	203,151	210,774
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 634,274	\$ 203,151
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	\$ 564,506	\$ 30,966
Cash and cash equivalents included in investments	69,768	172,185
	\$ 634,274	\$ 203,151

Note 1. Organization and Significant Accounting Policies

Organization and Activities

The Museum of Us (the Museum), formerly known as the San Diego Museum of Man, sits on the ancestral homelands of the Kumeyaay nation, in San Diego's Balboa Park, and was founded in 1915, as part of the city's Panama-California Exposition. At its founding, it was the epitome of an early 20th century anthropology museum; a place defined by its ethnographic collections and their encyclopedic display. In January 2012, its Board of Directors adopted a three-year strategic plan for change that identified a new mission: "Inspiring human connections by exploring the human experience." The institutional objective for the Museum of Us is to be San Diego's dynamic place to go to learn from each other, reflect on our place in the world, and build a better community. We are a place for the diverse stories that define us, especially those stories that have long been overlooked or silenced by dominant cultural narratives.

On August 2, 2020, the San Diego Museum of Man announced its change of name to Museum of Us. Presently its new name is a registered "Doing Business As" until a full legal change is executed. The name change represents a public commitment to equity, access, and our decolonizing/anti-racism work.

Exhibits – The Museum's new strategy is front and center in its latest exhibit offerings, including "Living With Animals," a colorful and fun exploration of the human-animal bond, "PostSecret," a fascinating exploration of how secrets are the currency of human intimacy, and "Cannibals: Myth and Reality" a thought provoking exploration of cultural "othering."

Community engagement through educational and public programs – Signature offerings include student and adult tours and 90 minute workshops complementing the "Race: Are We So Different?" exhibit. During FY20 these programs served 3,585 individuals – a lower number than typically served due to COVID and the seismic retrofit of the California Tower.

Cultural Resources – The Department of Cultural Resources is tasked with caring for more than 150,000 documented ethnographic materials, more than 500,000 archaeological cultural resources, and over 100,000 photographic images; and, for stewarding them within a decolonized paradigm. To that end, the Museum passed policies in 2017 and 2018 that require documented consent from descendant communities to hold human remains or any Indigenous belongings at the Museum. These policies commit the Museum to repatriating any Indigenous item for which the Museum does not have such consent. Since 2017 we've been working with our Kumeyaay partners in meaningful ways to incorporate community voice in broad-based decisions about cultural resources, exhibits, and programs. This work has received critical financial support from the Institute of Museum and Library Services (IMLS), starting in 2017 and again in 2020.

The Museum holds accreditation by the American Alliance of Museums and is an affiliate of the Smithsonian Institution. On January 25, 2018, the Nonprofit Institute at the University of San Diego awarded the Museum its Kaleidoscope Award for good governance. Charity Navigator rates the Museum at four out of four stars. We typically welcome approximately 200K visitors annually though COVID-19 and the seismic retrofit of our historic California Tower (February 2019-February 2020) have caused a temporary reduction in attendance.

Significant Accounting Policies

Method of Accounting – The financial statements of the Museum have been prepared utilizing the accrual basis of accounting.

Basis of Presentation – The financial statements of the Museum have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Museum to report information regarding its 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 organization. These net assets may be used at the discretion of the Museum's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, 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 statements of activities.

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Museum’s ongoing programs. Nonoperating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

Risks and Uncertainties – The Museum invests in various types of investment securities which 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 such changes could materially affect the amounts reported in the statement of financial position.

Revenue Recognition

Contributions – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Museum reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with restriction revenues are reclassified to without restriction revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as donor restricted endowments. The income and net gains earned from such assets is generally restricted to the purpose designated by the donor. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958-605.

Contributions of service are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Museum reports such contributions at their estimated fair value when received. During the year ended June 30, 2020, no contributions of services were recorded.

Government Grants - Revenue is reported in the period in which services are provided at the estimated net realizable amounts, unless contractually required otherwise.

Grants and contract revenues are comprised of revenues classified as both exchange transactions and contributions. In accordance with Accounting Standards Codification ("ASC") 958, Not-for-Profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, the Museum reviews all contract agreements and determines whether the agreement qualifies as an exchange transaction or as a contribution. In cases where agreements are determined to be exchange transactions, the Museum recognizes revenues as services are rendered and, if applicable, funds received in advance of services being rendered are classified as deferred revenue. Revenue is recognized in the period in which services are rendered and is presented as revenue without donor restrictions in the combined Statement of Activities.

In cases where agreements are determined to be contributions, the agreement is reviewed for barriers or restrictions and, if applicable, advanced payments are classified as deferred revenue until the barrier or restriction has been met. Revenue is recognized in the period in which all barriers and restrictions have been met and is presented as contract revenue without donor restrictions on the Statement of Activities.

SAN DIEGO MUSEUM OF MAN, DBA MUSEUM OF US
NOTES TO FINANCIAL STATEMENTS

Admissions and Education – The Museum records revenue when goods or services are provided.

Memberships – The Museum recognizes revenue at the time of renewal.

Exhibition Costs – Exhibition costs related to rotating exhibits are included in prepaid expense and are expensed over the term of the exhibition, while exhibition costs related to permanent exhibitions are included in fixed assets and depreciated over the useful life of the exhibition. Other general exhibition costs that do not fall into these categories are expensed when incurred.

Cash and Cash Equivalents – The Museum considers all cash accounts that are not subject to withdrawal restrictions or penalties and money market funds with an original maturity date of less than 90 days to be cash equivalents.

Grants and Other Receivables – All receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on the estimated collectability. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of \$10,000 is needed for the year ended June 30, 2020.

Investments – Investments in marketable securities with readily determinable fair values are reported at fair values. Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets, unless the use is restricted by the donor.

Physical Facilities – The City of San Diego (the City) owns the building in Balboa Park occupied by the Museum under an agreement that permits the Museum's use of the structure free of charge. The Museum occupies the building under a 25-year lease agreement with the City expiring in 2037, which permits the Museum's use of the structure at no charge. Under the terms of the lease, the City is responsible for the maintenance of the exterior of the building.

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), the original value of the building is to be reflected in the Museum's financial statements. However, if the building had been reported at its fair market value at the date the agreement with the City originally commenced, it would have been fully depreciated in prior years. Therefore, it is not reflected in the accompanying statement of financial position.

The agreement with the City also provides for the Museum's free use of the land in Balboa Park on which the structure is situated. No amounts have been reflected in the financial statements for use of the land, as no objective basis is available to measure its value.

Inventory – The Museum's store inventory which consists principally of books, periodicals, and gift items is stated at lower of cost (FIFO) or market.

Property and Equipment – The Museum capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at the estimated fair values. Such donations are reported as without donor restrictions support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions support. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Exhibits	15 years
Leasehold improvements	20 to 40 years
Furniture, fixtures, and equipment	3 to 40 years
Vehicles	7 years

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NOTES TO FINANCIAL STATEMENTS

Depreciation expense totaled \$189,232 for the year ended June 30, 2020.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credit or charged to earnings.

Deferred Revenue – Income received in advance for facility rentals and special events are deferred and recognized in the period in which the facility rental or event occurs. Deferred facility rental income and museum event income totaled \$25,175 at June 30, 2020.

Refundable Advance – The Museum received a loan in the amount of \$628,000 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The Museum believes the PPP loan qualifies for forgiveness and has elected to account for the PPP loan under FASB ASC 958-605. Under this model, the Museum has recorded a refundable advance and will record revenue when the PPP loan is forgiven.

Donated Services and Materials – The Museum utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the year ended June 30, 2020, did not meet the requirements above, therefore, no amounts were recognized in the financial statements for volunteer time.

The Museum received donated materials, catering, advertising, and professional fees which have been recorded at fair value and totaled \$76,615 for the year ended June 30, 2020.

The Museum donated approximately 421 guest passes and memberships with a value of approximately \$7,116 to the community for the year ended June 30, 2020. Additionally, the Museum participated in a Community Access Program through the Balboa Park Cultural Partnership which provided 4,576 free park-wide Explorer admissions passes to low income individuals and families as well as 1,192 passes to active duty military families. The Museum is also committed to providing free admission to all San Diego residents on Free Tuesdays, a monthly program which offered complimentary entrance to nearly 12,500 visitors in the fiscal year ended June 30, 2020.

Cultural Resources – The Department of Cultural Resources is tasked with caring for more than 150,000 documented ethnographic materials, more than 500,000 archaeological cultural resources, and over 100,000 photographic images. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in with restrictions net assets if the assets used to purchase the items are restricted by the donor. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Advertising Costs – Advertising costs are expensed as incurred and totaled \$85,996 for the year ended June 30, 2020.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Museum are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service. Depreciation is allocated on a square footage basis.

Income Taxes – The Museum is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income tax. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Taxes*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Museum has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Use of Estimates – The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards – In June 2018, the FASB issued ASU 2018-08, Not-for-profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, this update to clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The update assists in demining if transactions should be accounted for as exchange transaction or a contribution and determining if a contribution is conditional.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (ASU 2016-18). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Museum’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Museum has evaluated subsequent events through December 14, 2020, which is the date the financial statements are available for issuance, and concluded that the following event needs to be disclosed:

The Museum was forced to cease all in-person admissions and programming by mandate of state/county order due to the Coronavirus pandemic. It is unclear when the Museum will be able to resume these aspects of its operations, but it could be a matter of weeks or months. This will have a significant impact on the Museum’s earned revenues and may result in a material adverse impact on the Museum’s financial position, operations, and cash flows. Additional possible effects may include, but are not limited to, disruption to the Museum’s earned and contributory revenues, absenteeism in the Museum’s workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by the Museum, including property and equipment and marketable securities. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2. Liquidity and Availability of Resources

The Museum's financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

Financial Assets	
Cash and cash equivalents	\$ 564,506
Grants and other receivables	56,864
Investments	<u>4,522,786</u>
Total financial assets available within one year	<u>5,144,156</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(490,606)
Restricted by donors in perpetuity	<u>(439,451)</u>
Total amounts unavailable for general expenditures within one year	<u>(930,057)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 4,214,099</u>

The Museum maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Concentration of Credit Risk

Financial instruments, which potentially subject the Museum to credit risk, consist primarily of cash and investments.

Cash – The Museum maintains its cash in bank accounts, which at times may exceed federally insured limits. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Investments – The Museum invests in various investments including mutual funds and money market accounts. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect amounts reported on the financial statements.

Note 4. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the Museum would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the

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NOTES TO FINANCIAL STATEMENTS

assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Museum's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2020, Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	\$ 4,522,786	\$ 4,522,786	\$ -	\$ -

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. The Museum has investments which are based upon quoted market prices at June 30, 2020.

The management of the Museum is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Museum has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with U.S. GAAP.

Note 5. Investments

Investments at fair value as of June 30, 2020, consists of fixed income funds totaling \$4,522,786.

Note 6. Grants and Other Receivables

Receivables at June 30, 2020, consist of the following:

Institute of Museum and Library Services	\$ 33,256
City of San Diego	31,378
Other	2,230
	<u>66,864</u>
Less allowance for doubtful accounts	10,000
	<u>\$ 56,864</u>

Note 7. Property and Equipment

Property and equipment at June 30, 2020, consist of the following:

Leasehold improvements	\$ 1,329,534
Exhibits	775,077
Furniture, fixtures, and equipment	790,162
California Tower	762,402
Construction in progress	112,192
Vehicles	15,507
	<u>3,784,874</u>
Less accumulated depreciation	2,319,610
	<u>\$ 1,465,264</u>

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows received by the Museum, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions at June 30, 2020 are available for the following purposes:

Exhibits	\$ 395,365
Collections	74,200
Education programs	21,041
	<u>\$ 490,606</u>

Endowments, subject to the Museum's spending policy and appropriations, the income from which is expendable for:

California Tower	\$ 389,451
General operations	50,000
	<u>\$ 439,451</u>

Total net assets with donor restrictions at June 30, 2020 is \$930,057.

Note 9. Net Assets Released from Restriction

Temporarily restricted net assets released from restriction at June 30, 2020, consist of the following:

Education programs	\$ 116,956
Exhibits	27,015
Collections	10,274
Security	16,613
Other	41,878
	<u>\$ 212,736</u>

Note 10. Endowment

Endowment Funds – The net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Museum’s endowment funds consist of only donor-restricted endowment funds.

Interpretation of Relevant Law – The State of California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) in 2008. The Board of Directors of the Museum has interpreted the UPMIFA as requiring the long-term preservation of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies with donor restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unless otherwise stipulated by the donor, the Museum classifies its donor-restricted fund net assets with donor restrictions held in perpetuity, using the original value of the gift when it was donated to the permanent endowment. Accumulated earnings to the permanent endowment are classified as net assets with donor restricted that are program or time restricted in accordance with UPMIFA.

Endowment Investment and Spending Policies – The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its 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.

To satisfy its long-term rate-of-return objectives, the Museum invests its endowment funds in a diversified portfolio of mutual funds and 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’s long-term goal is to target for distribution each year 5 percent of the fair market value of the fund as of June 30 of the preceding year. The actual distribution rate will be determined at the annual Board meeting in July of each year.

The Board will take into consideration the following factors when making its annual determination: specific donor intent, the preservation of the fund, the purpose of the fund, general economic conditions, possible effect of inflation or deflation, expected total return from income and appreciation of investments, the Museum’s other resources, and the Museum’s investment policy.

No withdrawals can be made in excess of 7 percent of the fair market value of the fund or if the fair value of the investments falls below the value of the original principal value at the time of receipt of the donation.

The following table represents the changes in the Museum’s donor restricted endowment funds during the year ending June 30, 2020:

<i>Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2020</i>	
	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 436,715
Investment return:	
Investment income	<u>2,736</u>
Endowment net assets, end of year	<u>\$ 439,451</u>

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NOTES TO FINANCIAL STATEMENTS*

In addition, total assets with a fair value of \$229,000 at June 30, 2020, are held and invested by the San Diego Foundation. The Museum has no ownership rights over the principal but receives distributions semi-annually from the earnings on these assets. The Museum received distributions totaling \$10,335 for the year ended June 30, 2020, which are included in contributions and grants in the statement of activities.

Note 11. Retirement Plan

The Museum adopted a Money Purchase Pension Plan (the Plan) under Section 403(b) of the Internal Revenue Code for all employees 21 years of age and older. Under terms of the Plan, the Museum contributed an amount equal to 5 percent of eligible employees' gross pay. During the year ended June 30, 2014, the Museum eliminated the employer match portion of the Plan. In lieu of the employer match, eligible employees now receive a 5 percent raise after two years of service.

During the year ended June 30, 2014, the Museum established a Deferred Compensation Plan under Section 457(b) of the Internal Revenue Code for the CEO. \$48,213 in contributions were committed to the Deferred Compensation Plan for the year ended June 30, 2020.

Note 12. Commitments

Line of Credit – The Museum had two lines of credit as of June 30, 2020. The first line is for \$500,000 expiring on March 1, 2021 the second is for \$1,000,000 expiring on termination by either party. As of June 30, 2020, there was no amount outstanding on either line.

Operating Leases – The Museum leases various equipment and facilities under operating leases. For the year ended June 30, 2020, rent expense totaled \$23,457.

At June 30, 2020, the total minimum lease commitments under such operating leases are:

2021	\$ 8,489
2022	6,972
2023	6,972
2024	6,971
2025	6,971
Thereafter	<u>1,162</u>
	<u>\$ 37,537</u>

Note 13. June 30, 2019 Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2019 financial information to conform to the classifications adopted for the 2020 financial statement amounts. These reclassifications had no effect on the change in net assets.

Note 14. Significant Projects

Ongoing Disruption to Business Operations – Beginning in February 2019, the California Tower—one of the Museum’s primary sources of revenue—was closed to the public while the City of San Diego seismically retrofitted it. It remained closed through February 2020. This created a construction zone around the Museum and required the organization to close some of its exhibits and significantly lower its ticket price. As a result, overall admissions revenues decreased dramatically due to the project. The Museum also was forced to temporarily limit its other offerings, such as educational tours and events, during the course of construction. This further impacted revenue. The Museum also needed to hire additional staff to manage this project, causing expenses to temporarily increase.

Separately, the Museum also expended significant resources preparing for another large-scale City project designed to add parking and return Balboa Park to its original pedestrian-only status. This project required the Museum to safeguard an entire storage room of cultural resources that were subject to vibrations during the planned construction. Although the project never came to fruition for reasons outside the Museum’s control, the Museum had to prepare for the project so far in advance that, by the time it was on notice that the project would not proceed, the Museum had already commenced the work.

In addition, in mid-March 2020, the Museum was forced to cease all in-person admissions and programming by mandate of state/county order due to the Coronavirus pandemic. While the lack of earned revenues had a significant impact on the financial performance of the Museum in fiscal year ending June 30, 2020, the Museum has been strategically growing its reserves for years in anticipation of the above projects, as well as unexpected events such as the pandemic. In addition, the Museum significantly contracted its operations in response to the pandemic. As a result, the Museum is well-positioned to continue to weather the financial hit from these events, with over two years of operating funds in reserve.

Investing in the future – A portion of the operating deficit this fiscal year was also a product of long-overdue strategic investments in the future of the Museum. Specifically, a team of expert consultants were brought in to help us reimagine the visitor experience from beginning to end, and develop the infrastructure necessary to bring a new vision to fruition in the years ahead.