

***Museum of Contemporary Art  
San Diego***

*Financial Statements as of and for the Year Ended June 30,  
2022 (With Comparative Summarized Financial Information  
for the Year Ended June 30, 2021), Independent Auditors'  
Report, and Supplemental Schedule for the Year Ended June  
30, 2022*

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
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## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of  
**Museum of Contemporary Art of San Diego**  
San Diego, CA

### *Opinion*

We have audited the accompanying financial statements of the **Museum of Contemporary Art of San Diego** (the "Museum"), which comprise the statements of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2022 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.

### *Basis for Opinion*

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

### *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.

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



### *Auditors' Responsibility for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

*Mayer Hoffman McCann P.C.*

San Diego, California  
March 8, 2023

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2022**  
**(With Comparative Summarized Financial Information As of June 30, 2021)**

ASSETS	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 2,832,966	\$ 9,816,098
Unrestricted investments	2,521,574	2,985,633
Accounts receivable	124,162	599,652
Pledges and grants receivable, net - current portion	2,506,982	2,388,662
Inventory	248,189	169,100
Prepaid expenses and current other assets	95,920	113,278
Total current assets	<u>8,329,793</u>	16,072,423
Non-Current Assets:		
Pledges and grants receivable, net - long-term portion	2,798,964	3,390,245
Property and equipment - net	109,764,417	95,868,577
Restricted investments	39,983,062	47,183,831
Other assets	107,744	107,744
	<u>\$ 160,983,980</u>	<u>\$ 162,622,820</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 910,155	\$ 7,401,141
Deferred revenue - PPP Loan	-	161,347
Deferred revenue - current portion	184,965	390,110
Line of credit	-	1,550,000
Deferred compensation - current portion	126,556	100,575
Total current liabilities	<u>1,221,676</u>	9,603,173
Deferred compensation	903,902	915,688
Deferred revenue - long-term portion	689,999	700,158
Long-term debt, net of deferred financing costs	3,260,311	3,244,931
Construction loan, net of deferred financing costs	20,988,644	21,182,037
Total liabilities	<u>27,064,532</u>	35,645,987
Net Assets:		
Without donor restrictions - as restated for 2021	79,226,965	45,326,913
With donor restrictions - as restated for 2021	54,692,483	81,649,920
Total net assets	<u>133,919,448</u>	126,976,833
	<u>\$ 160,983,980</u>	<u>\$ 162,622,820</u>

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

**MUSEUM OF CONTEMPORARY ART SAN DIEGO**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2022**  
**(With Comparative Summarized Financial Information for the Year Ended June 30, 2021)**

	Without Donor Restrictions	With Donor Restrictions	2022	2021
<b>SUPPORT AND REVENUES:</b>				
SUPPORT:				
Contributions	\$ 18,293,440	\$ 1,150,067	\$ 19,443,507	\$ 6,562,673
In-kind contributions	257,971	-	257,971	316,806
City and county of San Diego grants	189,313	-	189,313	145,766
State and federal grants	1,150,462	750,000	1,900,462	809,915
Net assets released from restrictions	28,049,178	(28,049,178)	-	-
Total support	47,940,364	(26,149,111)	21,791,253	7,835,160
REVENUES:				
Special events	505,463	-	505,463	583,109
Unrealized gain (loss) on investments	(11,513,743)	(1,538,877)	(13,052,620)	7,833,280
Dividend and interest income	987,635	181,452	1,169,087	855,793
Membership	957,453	-	957,453	573,667
Auditorium/Museum space rental	245,247	-	245,247	1
Realized gain on investments	5,896,667	549,099	6,445,766	3,156,539
Other income	101,335	-	101,335	920,971
Store sales	67,971	-	67,971	-
Touring exhibit fees	2,491	-	2,491	450
Admission fees	102,831	-	102,831	-
Publication sales	20,681	-	20,681	4,762
Educational programs and lectures	50	-	50	-
Total revenues	(2,625,919)	(808,326)	(3,434,245)	13,928,572
Total support and revenues	45,314,445	(26,957,437)	18,357,008	21,763,732
<b>EXPENSES:</b>				
Program services:				
Exhibitions	3,114,737	-	3,114,737	1,888,519
Permanent collections, circulation and accessions	1,614,628	-	1,614,628	1,208,701
Education, performances and library	318,699	-	318,699	393,580
Membership support	398,138	-	398,138	391,989
Visitor services	145,012	-	145,012	500
Curatorial	435,266	-	435,266	349,482
Publications	218,636	-	218,636	139,002
Museum store	125,553	-	125,553	50,000
Total program services	6,370,669	-	6,370,669	4,421,773
Supporting services:				
General and administrative	2,988,098	-	2,988,098	1,937,831
Special events	124,080	-	124,080	134,450
Advancement	694,663	-	694,663	217,208
Communications	747,658	-	747,658	294,799
Expansion campaign	486,970	-	486,970	40,598
Museum beverage service	2,255	-	2,255	2,255
Total supporting services	5,043,724	-	5,043,724	2,627,141
Total expenses	11,414,393	-	11,414,393	7,048,914
CHANGE IN NET ASSETS	33,900,052	(26,957,437)	6,942,615	14,714,818
NET ASSETS - Beginning of year - as restated	\$ 45,326,913	\$ 81,649,920	\$ 126,976,833	\$ 112,262,015
NET ASSETS - End of year	\$ 79,226,965	\$ 54,692,483	\$ 133,919,448	\$ 126,976,833

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

MUSEUM OF CONTEMPORARY ART SAN DIEGO  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2022  
 (With Comparative Summarized Financial Information for the Year Ended June 30, 2021)

	Program Services									Support Services							2022	2021
	Exhibitions	Publications	Curatorial	Permanent Collections, Circulation and Accessions	Education Performances Library	Visitor Services	Museum Stores	Membership Support	Museum Beverage Service	Communications	Advancement	Special Events	General and Administrative	Expansion Campaign	Building			
Salaries and employee benefits	\$ 471,395	\$ -	\$ 404,969	\$ 427,195	\$ 234,411	\$ 97,496	\$ 38,074	\$ 246,554	\$ -	\$ 144,123	\$ 600,539	\$ 3,527	\$ 1,454,224	\$ -	\$ 251,426	\$ 4,373,933	\$ 2,900,094	
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,368,200	1,368,200	845,701	
Contract/Consulting services	196,840	54,504	-	125,229	12,074	40,466	83,989	108,964	-	445,401	49,895	53,183	350,679	229,379	477,712	2,228,315	982,772	
Miscellaneous	-	-	79	54	-	-	50	357	-	-	2,125	1,030	6,057	15,164	-	24,916	6,955	
Rentals	212,729	-	-	5,405	1,820	-	-	952	-	-	-	-	6,658	46,616	56,454	330,634	391,929	
Utilities	-	-	-	78,430	-	-	-	-	-	-	-	-	-	-	354,417	432,847	262,872	
Insurance	1,467	-	-	195,145	-	-	-	-	-	-	-	-	-	-	6,263	372,387	238,456	
Investment fee	2,165	-	-	14,800	11,849	-	-	156	2,255	-	-	855	166,246	-	-	200,758	199,649	
Uncollectible pledges receivable	-	-	-	-	-	-	-	-	-	-	-	-	171,944	-	-	-	10,000	
Legal and accounting	-	-	-	880	-	-	-	-	-	-	-	-	106,616	-	-	107,496	158,595	
Food and entertainment	1,024	-	1,555	909	3,229	40	-	15,803	800	2,559	1,537	18,984	163,702	241	210,383	15,895		
Bank service fees/Interest expense	-	-	28	2,905	-	2,474	1	13,137	-	-	211	(702)	193,605	-	-	211,659	69,954	
Telephone	-	-	-	-	-	-	-	-	-	-	-	-	-	54,736	-	54,736	45,967	
In-kind contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,724	
Supplies and equipment	55,597	215	11,722	44,332	11,942	7,435	22,127	1,211	907	212	3,715	18,629	18,598	86,197	282,839	34,772		
Repairs and maintenance	-	-	-	9,638	-	-	-	-	-	-	-	2,589	2,352	-	31,058	45,637	54,535	
Taxes	-	-	-	92	-	-	-	-	-	-	-	-	1,987	-	117,251	119,330	52,689	
Accessions of art, net of deaccessions	-	-	-	122,854	-	-	-	-	-	-	-	-	-	-	-	122,854	134,600	
Travel and accommodations	21,498	-	4,768	3,453	1,651	-	-	4,030	-	9,704	4,862	2,130	34,860	415	25,103	112,474	6,890	
Amortization of bond issuance fees	-	-	-	-	-	-	-	-	-	-	-	-	64,683	-	-	64,683	21,536	
Graphic design and printing	4,515	123,225	32	439	225	-	1,785	30	19,454	15,947	9,851	503	13,096	-	189,102	39,887		
Advertising and marketing	-	-	-	-	39	-	-	-	95,567	-	-	-	-	-	-	95,606	20,511	
Membership, dues and subscriptions	-	-	1,845	3,240	244	-	326	2,502	6,337	881	-	20,258	-	-	35,633	31,321		
Restoration	16,532	-	-	131,712	-	-	-	-	-	-	-	-	-	-	-	148,244	40,238	
Shipping and crating	77,241	5,617	-	55,486	-	-	498	278	-	-	76	48	423	-	139,667	36,317		
Postage	-	205	1,057	-	14	60	-	-	244	407	300	1,385	-	92	3,764	3,967		
Photography	1,275	7,483	-	2,435	-	-	-	-	21,266	-	3,525	845	-	-	36,829	4,042		
New employee search/Staff training	1,472	-	1,356	883	227	-	-	1,885	255	1,881	-	6,393	-	-	14,352	42,156		
Cost of sales	-	27,387	-	-	-	(8,009)	(34,787)	-	-	-	-	812	-	-	(14,597)	103,070		
Honoraria/Artist fees	7,233	-	-	-	750	-	-	-	-	-	-	-	-	-	7,983	63,508		
Participation fees	6,327	-	-	-	-	-	-	-	-	-	-	-	-	-	6,327	112,086		
Computer materials/Service	-	-	-	-	-	-	-	-	-	-	-	-	172	-	87,230	87,402		
	1,077,310	218,636	427,411	1,225,516	278,475	139,962	112,063	395,859	2,255	744,058	679,595	81,588	2,628,315	486,970	2,916,380	11,414,393	7,048,914	
Allocation of building expenses	2,037,427	-	7,855	389,112	40,224	5,050	13,490	2,279	-	3,600	15,068	42,492	359,783	-	(2,916,380)	-	-	
	\$ 3,114,737	\$ 218,636	\$ 435,266	\$ 1,614,628	\$ 318,699	\$ 145,012	\$ 125,553	\$ 398,138	\$ 2,255	\$ 747,658	\$ 694,663	\$ 124,080	\$ 2,988,098	\$ 486,970	\$ -	\$ 11,414,393	\$ 7,048,914	

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

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2022

(With Comparative Summarized Financial Information for the Year Ended June 30, 2021)

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ 6,942,615	\$ 14,714,818
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gain)/loss on investments	6,606,854	(10,989,819)
Depreciation and amortization	1,432,883	867,238
Cash draws from investment account	1,997,742	(1,620,163)
Uncollectible pledges receivable	-	134,600
Changes in assets and liabilities:		
Accounts receivable	475,490	(381,208)
Pledges and grants receivable	472,961	2,632,714
Inventory	(79,089)	103,066
Prepaid expenses and other assets	17,358	258,602
Accounts payable and accrued expenses	(6,490,986)	(3,821,364)
Deferred revenue	(215,304)	(88,411)
Net borrowings on PPP loan	(161,347)	(137,881)
Deferred compensation	14,195	22,565
Net cash from operating activities	<u>11,013,372</u>	<u>1,694,757</u>
Cash Flows From Investing Activities:		
Proceeds from sales of investments	52,005,355	15,054,818
Purchases of investments	(52,945,123)	(12,469,714)
Purchases of property and equipment	(15,270,250)	(24,069,192)
Net cash from investing activities	<u>(16,210,018)</u>	<u>(21,484,088)</u>
Cash Flows From Financing Activities:		
Net borrowings/(payments) on line of credit	(1,550,000)	1,200,000
Borrowings on Construction Loan	9,763,514	21,151,256
Payments on Construction Loan	(10,000,000)	-
Net cash from financing activities	<u>(1,786,486)</u>	<u>22,351,256</u>
Net Change in Cash and Cash Equivalents	<u>(6,983,132)</u>	<u>2,561,925</u>
Cash and Cash Equivalents - Beginning of year	<u>9,816,098</u>	<u>7,254,173</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,832,966</u>	<u>\$ 9,816,098</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 110,874</u>	<u>\$ 75,617</u>

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



# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Nature of Activities*** - The **Museum of Contemporary Art San Diego** (the “Museum”) - one museum with three distinct, complementary locations in San Diego and La Jolla, California - is a visual arts institution with an international constituency. The Museum aims to culturally enrich the lives of residents and visitors from around the world with collections, exhibitions and programs that focus on the art and artists of our time. The general purposes of the Museum are to acquire, exhibit and preserve works of art created since 1950 for the benefit of future generations, to foster the work of living artists and to promote an awareness and appreciation of the value of emerging artistic creativity through an active education program for adults and young people, to present and interpret significant developments in contemporary art, and to offer the public broad, balanced perspectives on contemporary art. The Museum’s programs are supported primarily by contributions and investment returns.

***Basis of Presentation*** - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with the authoritative guidance related to not-for-profit entities. Accordingly, the Museum is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Contributions of goods are recognized in the financial statements if the goods 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. There were no contributed goods nor services during the current year.

Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulation about how long these long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

***Net Assets Without Donor Restrictions*** – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors’ stipulations results in the release of such restrictions.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

***Net Assets With Donor Restrictions*** – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the Museum. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Directors (the “Board”) for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity.

Expirations of restrictions on net assets as the result of the passage of time and/or fulfilling donor-imposed stipulations are reported as net assets released from restrictions between the applicable classes of net assets in the statement of activities. Contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions

***Grants*** - City and County of San Diego grants and other grants are recognized as without donor restrictions or with donor restrictions, depending on the stipulations of the grant agreements. When a grant restriction expires, stipulated time restrictions end or purpose restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

The Museum has made claims for refundable credits under the Employee Retention Credit (“ERTC”) program of approximately \$616,270 for the year ended June 30, 2022, as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and subsequently amended by the Consolidated Appropriations Act, 2021. Under the terms of the program the Museum must incur qualifying wage or health insurance costs and have either suspended operations under governmental order or experienced specified declines in gross receipts. If conditions are not met, any amount of credit received is refundable to the government and the Museum may be subject to fines and penalties.

The Museum accounts for the ERTC as a conditional contribution. Through June 30, 2022, \$748,733 has been reported as net grant revenue with a corresponding grant receivable of \$397,972 as of June 30, 2022, reported on the statement of financial position for the net amount of refundable credit due to the Museum.

***Pledges and Grants Receivable*** - Unconditional promises to give are recorded as pledges receivables, and revenues in the period received. Pledges receivable consist of unconditional promises to give. 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. Discounts to present value are computed using risk adjusted rates applicable in the years in which those promises are received. Risk adjusted interest rates ranged from approximately 1.73% to 3.11% per annum.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

Amortizations of the discounts are included in contributions. Conditional promises to give are not recorded as contributed income until the conditions are substantially met.

**Cash Equivalents** - For financial statement purposes, the Museum considers all highly liquid investments without donor restrictions with a maturity of three months or less when purchased to be cash equivalents.

**Investments** - Investments are accounted for in accordance with the authoritative guidance. Under the provisions of the authoritative guidance, investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair market value with gains and losses included in the statement of activities. Realized gains or losses recognized on the sale of securities are based upon the original cost of the security, as determined by the specific identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded in the statement of activities as part of current year operations.

During 2022, investments consisted of U.S. government securities and other debt and equity securities and are recorded at fair market value. The fair value of investments in securities traded on national security exchanges is valued at the closing price on the last business day of the fiscal year. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Investments are made according to the Investment Policy Statement adopted by the Museum's Board of Trustees. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by the Museum for the purpose of providing investment management and consulting.

**Property and Equipment** - Property and equipment is stated at cost or, in the case of donated property and equipment, at fair value at the date of gift, less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets, which is 25 to 50 years for buildings, the lesser of the useful life or the lease term for leasehold improvements, and 3 to 10 years for furniture and equipment. The Museum capitalizes acquisitions of property and equipment in excess of \$1,000.

**Real property held for sale** – Real property held for sale is stated at estimated fair value at the date of donation. The Museum records impairment losses when indicators of impairment are present. The fair value is determined using market prices of similar properties and an independent appraisal. No property was held for sale or sold in fiscal year 2022.

**Collections** - The permanent collection of the Museum consists of paintings, sculpture, installations, works on paper (including photography), video, and other media.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

The cornerstone of any museum is its collection. It is the responsibility of the Museum to acquire objects for its collection, to maintain them for use in exhibitions, education and research, and to preserve the collection in perpetuity. Acquisition and preservation of objects are the primary responsibilities of the Board of Trustees, the executive director and the curatorial staff.

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

***Charitable Remainder Trusts*** - The Museum is a beneficiary of certain trust funds held by others and has recorded an asset for the net present value of the estimated future amount to be received from such trusts. Charitable remainder trusts are trusts established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Upon termination of the trust, the Museum receives the assets remaining in the trust. The present values are calculated by using recent life expectancy tables and risk adjusted discount rates of between 2.94% and 3.12% as of June 30, 2022.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information. The Museum did not receive any new charitable trusts during fiscal year 2022. During 2022, the present value of the expected future benefit to the Museum of these assets decreased by approximately \$420,000. At June 30, 2022, these assets were valued at approximately \$968,000 and are included in the long-term portion of pledges and grants receivable on the statement of financial position.

***Inventory*** - Inventory, consisting primarily of merchandise held for sale in the Museum's stores, is carried at the lower of cost, determined principally on a first-in, first-out basis, or net realizable value.

***Other Assets*** - In December 2008, the Museum purchased a Type 47 Liquor License and established a DBA called Museum Beverage Services. Total costs related to the purchase equaled approximately \$102,000 and consisted of legal, escrow fees, and miscellaneous other costs. These costs were capitalized in accordance with the authoritative guidance and are included in long-term other assets.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the owner. As management has determined that the license has an indefinite life, the Museum has not amortized the license. The Museum performs an impairment analysis, and evaluates the useful life on an annual basis to determine whether events and circumstances continue to support an indefinite useful life and the carrying amount. There was no impairment as of June 30, 2022.

**Deferred Revenue** - Deferred revenue represents amounts collected in advance for exhibitions, membership fees, special events, and rental income. Such amounts are recognized as revenue in the period in which they are earned.

**Deferred Rent** - Rent expense is recorded on a straight-line basis over the term of the lease.

**Income Taxes** - The Museum is a not-for-profit organization and is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. The Museum, however, may be subject to tax on income which is not related to its exempt purpose. The Museum had no unrelated business income tax for the year ended June 30, 2022.

The Museum evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2022, management believes the Museum did not have any uncertain tax positions.

At June 30, 2022, the federal statute of limitation remains open for the 2020 through 2022 years. The statute of limitations for the state income tax returns remains open for the 2019 through 2022 years.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 statement of financial position and the reported amounts of revenues and expenses during years presented. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the estimated future cash flow of charitable remainder trusts, pledges and grants receivables, and deferred liability calculations.

**Credit Risk** - The Museum invests in various types of marketable securities and money market funds, and has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

The Museum invests in various investment securities, including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The Museum maintains cash balances at banks located in San Diego. Accounts at these institutions are secured up to the Federal Deposit Insurance Corporation limits. At times, balances may exceed federally insured limits. The Museum has not experienced any losses in such accounts. Management believes that the Museum is not exposed to any significant credit risk with respect to its cash and cash equivalents.

***Fair Value Measurements*** - Authoritative guidance establishes a common definition for fair value to be applied to generally accepted accounting principles in the U.S. requiring use of fair value, establishes a framework of measuring fair value, and expands disclosures about such fair value measurements.

Fair value is defined as the hypothetical price (excluding transaction costs) 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 determined based on the assumptions that market participants would use in pricing the asset or liability.

***Endowment Net Assets*** - Authoritative guidance provides direction on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The State of California approved a version of UPMIFA in September 2008 with an effective date of January 1, 2009.

***Prior Year 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's audited financial statements for the year ended June 30, 2021, from which the summarized information was derived.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT'D

***New accounting pronouncement*** - In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance establishes a right-of-use model that requires a lessee to record an asset and liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Museum is currently evaluating the impact of the new standard on its financial statements.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). The guidance increased the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The new guidance is effective for the year beginning after June 15, 2021. The Museum has adopted the new standard in this fiscal year.

### 2. AVAILABILITY AND LIQUIDITY

The Museum strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Museum's financial assets as of June 30, 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include certain donor restricted investments as more fully described in Note 10.

Financial assets at year end:

Cash	\$ 2,832,966
Investments	42,504,636
Grants and pledges receivable	5,305,946
Total financial assets	<u>50,643,548</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions, net of Capital Campaign	46,755,513
Less: Net assets with purpose restrictions to be met in less than one year	
Current grants and pledges	(2,506,982)
Unrestricted investments	<u>(2,521,574)</u>
	<u>41,726,957</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 8,916,591</u>

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 3. INVESTMENTS

Investments are carried at fair value based on quoted market prices and at June 30, 2022, consisted of the following:

The Museum's investment activities for 2022 resulted in dividend and interest income of approximately \$1,154,000, net realized and unrealized loss on investments of approximately \$13,000,000 and total fees of approximately \$200,000.

Equity securities	\$	28,416,622
Fixed income securities		7,688,162
Real estate		2,846,829
Commodities		2,939,621
Cash		613,402
		<u>42,504,636</u>
	\$	<u>42,504,636</u>

### 4. PLEDGES AND GRANTS RECEIVABLE

As of June 30, 2022, the Museum has unconditional pledges and grants receivable which are due as follows:

Within one year	\$	2,506,982
One to five years		1,917,325
Greater than five years		<u>2,399,688</u>
		<u>6,823,995</u>
Less unamortized discount		<u>(1,518,049)</u>
	\$	<u>5,305,946</u>

Based on its history of collections and an assessment of existing receivables, management of the Museum believes that no allowance for doubtful pledges, grants, and other receivables is necessary at June 30, 2022. Pledges receivable from related parties totaled approximately \$1,243,622 at June 30, 2022.

At June 30, 2022, the Museum has one conditional pledge in the amount of \$2,000,000. The Museum expects to record contribution revenue related to this pledge as the conditions are met within the next year.



# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 5. DONATED FACILITIES

The Museum received in-kind contributions for the years ended December 31,:

	2022	2021
Office space	\$ 257,971	\$ 316,806
	<u>\$ 257,971</u>	<u>\$ 316,806</u>

The Museum's policy related to in-kind contributions is to utilize the assets given to carry out the mission of the Museum. If an asset is provided that does not allow the Museum to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The Museum requires the use of office space in order to operate. The office space is provided to the Museum at a rate of \$1 per year but based on current market rates for office space rent the Museum would have paid \$257,971 and \$316,806 for the years ended June 30, 2022 and 2021, respectively.

All in-kind contributions received by the Museum for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the Museum as determined by the board of directors and management.

### 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2022:

Buildings and leasehold improvements	\$ 116,529,383
Furniture and equipment	6,260,759
Software	106,462
	<u>122,896,604</u>
Less accumulated depreciation	<u>(22,341,446)</u>
	100,555,158
Land	9,209,259
Property and equipment - net	<u>\$ 109,764,417</u>

Depreciation and amortization expense was approximately \$1,374,000 for 2022.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 6. PROPERTY AND EQUIPMENT, CONT'D

In July 2004, an unrelated party transferred title for land and a building for a third location to the Museum, the fair value of which was estimated to be \$6,771,000. In connection with the transfer, the Museum granted the City of San Diego an option to acquire the land and building on or after July 31, 2091, or prior to that date if the Museum commits a default under the related transfer agreement.

Default includes failure to perform any substantive covenant, condition, or obligation of the Museum under the transfer agreement, including continuous operation of the property as a contemporary art museum. The Museum was not aware of any defaults as of June 30, 2022.

### 7. DEBT

**Line of Credit** - The Museum has a line of credit agreement with a bank expiring in March 2022 that provides for borrowings up to \$2,000,000 at any one time at a variable interest rate, which was 2.34% per annum at June 30, 2022. The line of credit is uncollateralized. At June 30, 2022, there was a \$0 balance outstanding under this agreement. The line of credit agreement contains both financial and nonfinancial covenants. At June 30, 2022, management believes they are in compliance with all debt covenants.

**Long-Term Debt** - In December 2004, the Museum borrowed \$13,000,000 through the issuance of tax-exempt variable rate demand certificates of participation (the "Bonds") issued by the County of San Diego. The Bonds bear interest at a weekly interest rate determined by Westhoff, Cone & Holmstedt (the "Remarketing Agent"), which was .93% per annum at June 30, 2022. The next scheduled payment is November 1, 2025.

The Bonds mature on November 1, 2034, subject to prior redemption, and are secured by a \$9,750,000 (the "Stated Amount") irrevocable, direct-pay letter of credit (the "LC") issued by Northern Trust Bank (the "Bank") for the Museum, in the favor of the bondholders, which expires on February 3, 2026, unless extended. The Museum is required to have a letter of credit related to the Bonds through the maturity date.

The Museum pays to the Bank a LC fee based on a leverage ratio calculation. For the quarter ended June 30, 2022, the LC fee was equal to 0.75% per annum of the stated amount of the LC. LC fees are paid quarterly in advance, which commenced on February 2, 2011.

Furthermore, according to the terms of the LC the Museum has provided the Bank with a perfected first priority lien and security interest in the gross revenues of the Museum and each account in which the gross revenues are deposited.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 7. DEBT, CONT'D

The Museum must satisfy certain contractual covenants related to the LC that include, among others, meeting an annual liquidity requirement, maintaining its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, limiting capital expenditures and additional debt, and meeting annual financial reporting and audit requirements. At June 30, 2022, management believes they are in compliance with all debt covenants.

The proceeds of the Bonds were applied to the financing of the acquisition, construction, installation, improvement, renovation, furnishing, and equipping of new Museum galleries and other related facilities associated with the expansion project (collectively, “the Project”) in San Diego. The Project included renovating the historic Santa Fe Depot “baggage building” and constructing an adjacent three-story contemporary structure.

In connection with the issuance of the Bonds, the Museum incurred approximately \$460,000 of certain directly related issuance expenses, which have been capitalized as debt issuance costs. These deferred financing costs are being amortized to general and administrative expense over the life of the Bonds. Amortization expense of approximately \$15,000 was recognized in 2022 with approximately \$190,000 remaining to be amortized as of June 30, 2022.

In July 2019, the Museum entered into a \$33,000,000 construction loan (“the Loan”) agreement to finance the La Jolla facility expansion and improvements with a variable interest rate, which was 3.171% at June 30, 2022. The loan matures in July 2024.

The Museum must satisfy certain contractual covenants related to the Loan that include, among others, meeting an annual liquidity requirement, maintaining its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, limiting capital expenditures and additional debt, and meeting annual financial reporting and audit requirements. At June 30, 2022, management believes they are in compliance with all debt covenants.

The proceeds of the Loan were applied to the financing of the acquisition, construction, installation, improvement, renovation, furnishing, and equipping of new Museum galleries and other related facilities associated with the expansion project (collectively, “the Project”) in La Jolla.

In connection with the issuance of the Loan, the Museum incurred approximately \$123,000 of certain directly related issuance expenses, which have been capitalized as debt issuance costs. These deferred financing costs are being amortized to general and administrative expense over the life of the Loan. Amortization expense of approximately \$43,000 was recognized in 2022 with approximately \$49,000 remaining to be amortized as of June 30, 2022.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 7. DEBT, CONT'D

Future minimum principal payments related to the bank loan and to the bonds are as follows:

Years Ending June 30,	
2023	\$ -
2024	-
2025	21,037,893
2026	3,450,000
2027	-
Thereafter	-
	<hr/>
	24,487,893
Less deferred financing costs	(238,938)
	<hr/>
	\$ 24,248,955
	<hr/>

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The operations of the Museum have not been significantly impacted as the Museum was closed for renovations until its reopening in April 2022.

In February 2021, the Museum received its second Paycheck Protection Program (“PPP”) loan of \$515,000 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions, with a right-of-return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses incurred following receipt of the funds. The Museum recognized the amount received as grant revenue as qualified expenses occurred/barriers to entitlement were met. On February 9, 2022, the Museum received forgiveness of all principal and interest associated with the loan.

### 8. FAIR VALUE MEASUREMENTS

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the input information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

### 8. FAIR VALUE MEASUREMENTS, CONT'D

Level 3: Significant unobservable inputs for the asset or liability.

The following disclosures provide the fair value of financial instruments at June 30, 2022:

	(Level 1)	(Level 2)	(Level 3)	Total
Charitable Remainder Trusts	\$ -	\$ -	\$ 968,368	\$ 968,368
Common Stock Funds:				
Domestic:				
Large Cap	15,486,486	-	-	15,486,486
Mid Cap	1,120,670	-	-	1,120,670
Small Cap	2,278,342	-	-	2,278,342
Commodities - natural resources	2,939,587	-	-	2,939,587
International:				
International Developed	7,514,329	-	-	7,514,329
Emerging Markets	2,016,795	-	-	2,016,795
Fixed Income Funds:				
Government Agencies	5,142,974	-	-	5,142,974
Corporate Bond Funds	2,241,006	-	-	2,241,006
Exchange Traded Funds	-	-	-	-
Corporate/Gov't	304,181	-	-	304,181
Real Estate Investment Trust	2,846,864	-	-	2,846,864
	<u>\$ 41,891,234</u>	<u>\$ -</u>	<u>\$ 968,368</u>	<u>\$ 42,859,602</u>

See *Note 1* for a discussion of the fair value measurements of these assets.

For assets and liabilities measured at fair value on a recurring basis using Level 3 inputs during the year, authoritative guidance requires a reconciliation of the beginning and ending balances for each major category as follows:

	<u>Charitable Remainder Trusts</u>
Balance as of July 1, 2021	\$ 1,387,569
Unrealized loss	(419,201)
Balance as of June 30, 2022	<u>\$ 968,368</u>

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 9. ENDOWMENT NET ASSETS

In August 2008, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance for endowments which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The State of California approved a version of UPMIFA in September 2008, effective January 1, 2009.

Authoritative guidance requires the Museum to classify a portion of a donor-restricted endowment fund of perpetual duration as net assets with donor restrictions. Specifically, the portion classified as with donor restrictions shall be (a) the amount of the fund that must be retained permanently per explicit donor stipulations or (b) in the absence of such stipulations, the amount which the Museum’s governing board determines must be retained (preserved) permanently consistent with UPMIFA.

Authoritative guidance requires affirmation that the amount that is classified as net assets with donor restrictions is not reduced by losses on investments of the fund or by the Museum’s appropriations from the fund unless required by the donor. Furthermore, the portion of the fund that is not classified as net assets with donor restrictions must be classified as net assets with donor restrictions until appropriated for expenditure by the Museum. Such appropriation is deemed to occur upon the Museum’s governing board’s approval of expenditures in the current period. Once the appropriation for expenditure has occurred, the appropriated amount is reclassified to net assets without donor restrictions.

UPMIFA states that, absent explicit donor instructions to the contrary, assets in an endowment fund are donor-restricted assets until appropriated by the Museum. The Museum interprets this to mean that all earnings on a with donor-restrictions endowment gift are donor restricted assets. As such, in accordance with the authoritative guidance, such earnings are classified as with donor restrictions net assets (time restricted) until appropriated by the Museum.

UPMIFA became effective in California for endowment funds existing on or established after January 1, 2009. The law defines an endowment fund to mean an institutional fund (excluding assets that an institution designates as an endowment fund for its own use) that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The law establishes various factors for the Museum to consider in the management and investment of endowment funds, as well as various factors for the Museum to consider in its determination as to whether to appropriate or accumulate the endowment funds.

Upon adoption of UPMIFA the Museum interpreted the corpus of invested with donor restrictions funds to be approximately \$45,251,000. The Museum considers the value of an endowment gift to be considered for appropriation under UPMIFA to be equal to the sum of the original gift (and any subsequent donations) plus accumulated investment earnings, less accumulated investment losses and appropriations for expenditure by the Museum at any point in time.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 9. ENDOWMENT NET ASSETS, CONT'D

Previous California law restricted spending on donor-restricted endowment funds where the value of the fund fell below the “historic dollar value.” The historic dollar value represented the aggregate value of all contributions to an endowment fund at the time they were made. Absent explicit donor instructions to the contrary, the Museum interprets UPMIFA to have eliminated the historic dollar value limitation when considering endowment spending, instead

providing guidelines for such spending (referred to as “appropriation” in UPMIFA). In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policy of the Museum

The Board adopted a spending policy for endowment funds with donor restrictions based on a rolling average of historical market values. In fiscal year 2009 the Board approved the annual use of approximately 5% of the endowment funds’ calculated fair market value for the Museum’s operations. The Board appropriated approximately \$2,018,000 from endowment funds with donor restrictions in 2022 for operations.

The Museum’s endowment investment policy and strategy is to emphasize total return, that is, the aggregate return from capital appreciation and dividend and interest income. Within this framework specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with the authoritative guidance, deficiencies of this nature are reported in net assets with donor restrictions in the year in which they occur. Deficiencies of this nature that are reported in net assets with donor restrictions were approximately \$5,905,000 as of June 30, 2022. Gains and income in subsequent years will be netted against this deficiency until the fair value is once again above the initial level.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 9. ENDOWMENT NET ASSETS, CONT'D

The following is a composition of the Museum's endowment by net asset class in total and by type of endowment fund as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated Funds	\$ 2,521,574	\$ -	\$ 2,521,574
Donor-restricted Funds	-	45,142,573	45,142,573
Underwater balance	-	(5,905,966)	(5,905,966)
	<u>\$ 2,521,574</u>	<u>\$ 39,236,607</u>	<u>\$ 41,758,181</u>

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, June 30, 2021	\$ 2,985,633	\$ 46,356,483	\$ 49,342,116
Interest and dividends, net	56,796	882,973	939,769
Net Appreciation (Realized and Unrealized)	(392,851)	(6,112,297)	(6,505,148)
Funds in	-	-	-
Funds out	-	-	-
Appropriations	(128,004)	(1,890,552)	(2,018,556)
Endowment assets, June 30, 2022	<u>\$ 2,521,574</u>	<u>\$ 39,236,607</u>	<u>\$ 41,758,181</u>

Note that the difference between the net assets with donor restrictions presented in the statement of financial position and the amount included in the table above relates to outstanding pledge receivables and settlement of charitable remainder trusts not invested as an endowment.

### 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

General operations and programs	\$ 40,548,593
Building campaign	9,241,563
Accessions and exhibitions	4,902,327
Total	<u>\$ 54,692,483</u>



# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restriction by board appropriation satisfying the restricted purposes specified by donors as follows:

General operations and programs	\$ 30,000
Building campaign	27,828,412
Accessions and exhibitions	190,766
Total	<u>\$ 28,049,178</u>

### 12. OPERATING LEASES

In July 1992, the Museum entered into a ground lease agreement for property the Museum occupies in downtown San Diego. The term of the lease is 99 years and the annual lease payment is \$1.00. The Museum has agreed to comply with certain use and operating restrictions as defined in the lease agreement. The estimated fair value of the lease for 2022 is approximately \$258,000 per year based on rent for similar property in the area and is reflected as unrestricted contributions support and expense in the accompanying statement of activities.

The Museum leases equipment under non-cancelable operating leases. Certain of these leases include renewal and purchase options. Rent expense during 2022 was approximately \$15,000.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

#### Year ending June 30,

2023	\$ 16,332
2024	1,820
2025	1,820
2026	1,820
2027	1,820
Thereafter	<u>-</u>
	\$ 23,612

On February 1, 2006 (“Effective Date”), the Museum entered into an agreement with the National Rail Passenger Corporation (“Amtrak”) that allows Amtrak to occupy a portion of the David C. Copley Building (“Copley Building”). Although the agreement states that the \$850,000 payment received from Amtrak is a reimbursement for Amtrak’s agreed share of the costs of construction of the Copley Building, the Museum applied the applicable authoritative guidance to account for the payment as a lease. The term of the lease commenced on March 1, 2007 and expires on July 31, 2091.

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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### 12. OPERATING LEASES, CONT'D

Rental income was approximately \$0 for 2022 and \$10,000 in 2021. Deferred rent revenue at June 30, 2022 is approximately \$690,000 and is included in deferred revenue on the statement of financial position.

### 13. EMPLOYEE RETIREMENT PLANS

The Museum has an employee retirement plan that is a defined contribution plan under which the Museum matches a percentage of the participants' contributions after one year of employment. The contributions are made in accordance with Section 403(b) of the Internal Revenue Code. Total employer contributions were approximately \$74,000 for 2022.

In 2008, the Museum set up qualified 457(b) plans and a 457(f) plan for three top executives. Employer contributions to these plans totaled approximately \$47,000 in 2022. The plans require the Museum to deposit employer contributions in a separate bank account each year. Assets contributed to the plans remain the sole property of the Museum until a covered employee is eligible to receive distributions.

### 14. COMMITMENTS AND CONTINGENCIES

The Museum had one vendor that accounted for approximately 54% of purchases for the year ended June 30, 2022.

### 15. LITIGATION

In the normal course of business, the Museum is occasionally named in various claims and litigations. It is the opinion of management that the outcome of any pending items will not materially affect the operations or the financial position of the Museum. Management is not aware of any lawsuits where the Museum is currently named.

### 16. SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through March 8, 2023 which is the date the financial statements were available to be issued.

**SUPPLEMENTAL SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2022**

# MUSEUM OF CONTEMPORARY ART SAN DIEGO

## SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES OF CITY FUNDS SPECIAL PROMOTIONAL FUND AWARD FOR THE YEAR ENDED JUNE 30, 2022

COMMISSION FOR ARTS AND CULTURE, CITY OF SAN DIEGO BUDGET AND EXPENSES	<u>Budgeted</u>	<u>Actual</u>	<u>Total Grant Funded</u>
<b>Expense Classification</b>			
All salaried personnel	\$ 3,968,439	\$ 4,209,220	\$ -
Operating Expenses - nonpersonnel			
Artist & Performers - Salaries & Fringe	60,500	5,000	-
Facility Expenses/Space Rentals	1,701,287	1,045,789	-
Program Expenses	805,814	1,066,984	189,313
Marketing	444,901	461,077	-
Operating expenses (Director, Business Office)	432,999	693,811	-
Fundraising	376,585	68,121	-
Other (X Store, MBS, SOE)	-	2,255	-
Total operating expenses	<u>3,822,086</u>	<u>3,343,036</u>	<u>189,313</u>
Total expenses	<u>\$ 7,790,525</u>	<u>\$ 7,552,257</u>	<u>\$ 189,313</u>

NOTE: Budget and actual amounts are only a component of the Museum's operations and are not intended to reflect all of the operations of the Museum.