Report of Independent Auditors and Combined Financial Statements

The Fine Arts Museums of San Francisco

June 30, 2019
(with comparative totals for the year ended June 30, 2018)

MOSSADAMS

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Report of Independent Auditors

To the Boards of Trustees
Corporation of the Fine Arts Museums and
Fine Arts Museums Foundation

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Corporation of the Fine Arts Museums and the Fine Arts Museums Foundation (collectively the "Fine Arts Museums of San Francisco" or the "Organization"), which comprise the combined statements of financial position as of June 30, 2019, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Corporation of the Fine Arts Museums and the Fine Arts Museums Foundation as of June 30, 2019, and the combined changes in their net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Fine Arts Museums of San Francisco adopted Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the combined financial statements of Fine Arts Museums of San Francisco for the year ended June 30, 2018, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Moss Adams LLP

San Francisco, California
December 19, 2019

Combined Financial Statements

The Fine Arts Museums of San Francisco
Combined Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 25,935,121	$ 21,287,051
Short-term investments	14,501,959	14,869,008
Notes, accounts, and other receivables, net	3,051,576	3,079,792
Contributions receivable, net	6,133,245	9,041,913
Prepaid expenses and other assets	347,125	484,299
Inventories	989,679	1,115,125
Furniture, fixtures, and equipment, net	2,168,017	2,976,538
Long-term investments	150,637,505	136,239,124
Beneficial interest in perpetual trusts	2,370,046	2,425,906
Beneficial interest in de Young Museum building, net	125,760,507	131,652,476
Total assets	$ 331,894,780	$ 323,171,232
LIABILITIES AND NET ASSETS		
Accounts payable	$ 1,965,867	$ 3,693,423
Accrued expenses	2,652,552	2,449,496
Deferred revenue	1,052,789	1,266,727
Capital lease obligations	-	12,235
Agency funds	1,233,176	1,103,496
Accrued pension liability	8,630,459	6,701,282
Total liabilities	15,534,843	15,226,659
Net assets		
Without donor restrictions		
Operating	3,202,054	(6,889,047)
Other	162,179,524	160,025,293
Total without donor restrictions	165,381,578	153,136,246
With donor restrictions	150,978,359	154,808,327
Total net assets	316,359,937	307,944,573
Total liabilities and net assets	$ 331,894,780	$ 323,171,232

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statement of Activities
Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

	Without Donor Restrictions					
	Operating	Other	Total	With Donor Restrictions	Total 2019	Total 2018
Operating revenues and gains						
Admissions	$ 9,024,439	$ -	$ 9,024,439	$ -	$ 9,024,439	$ 8,136,924
Membership dues	12,834,482	-	12,834,482	-	12,834,482	10,749,280
Museum store sales, net of cost of goods	3,588,673	-	3,588,673	-	3,588,673	3,055,282
City appropriation	16,044,378	-	16,044,378	-	16,044,378	14,931,624
Contributions, grants, and bequests	16,939,212	6,900,000	23,839,212	9,092,899	32,932,111	20,975,578
Special events, net	577,061	-	577,061	-	577,061	942,216
Investment income, net	311,800	-	311,800	-	311,800	107,874
Proceeds from sale of art	-	-	-	167,449	167,449	984,697
Endowment distribution	3,627,626	(8,628)	3,618,998	(246,561)	3,372,437	3,391,814
Other	2,443,009	-	2,443,009	1,913	2,444,922	1,790,694
Total operating revenues and gains	65,390,680	6,891,372	72,282,052	9,015,700	81,297,752	65,065,983
Net assets released from restrictions	14,603,694	(111,361)	14,492,333	(14,492,333)	-	-
Total revenues	79,994,374	6,780,011	86,774,385	(5,476,633)	81,297,752	65,065,983
Operating expenses						
Program services						
Curatorial and collections	27,592,475	-	27,592,475	-	27,592,475	30,112,922
Exhibitions	18,074,045	-	18,074,045	-	18,074,045	15,537,695
Education and public programs	3,967,229	-	3,967,229	-	3,967,229	3,695,572
Membership activities	2,713,781	-	2,713,781	-	2,713,781	2,933,842
Museum stores	2,977,770	-	2,977,770	-	2,977,770	2,760,946
Total program services	55,325,300	-	55,325,300	-	55,325,300	55,040,977
Support services						
General and administrative	8,167,193	67,694	8,234,887	-	8,234,887	7,998,564
Development	3,534,520	-	3,534,520	-	3,534,520	3,721,323
Total support services	11,701,713	67,694	11,769,407	-	11,769,407	11,719,887
Total operating expenses	67,027,013	67,694	67,094,707	-	67,094,707	66,760,864
Change in net assets from operations	12,967,361	6,712,317	19,679,678	(5,476,633)	14,203,045	(1,694,881)
Other changes						
Investment return in excess of operating endowment distribution	795	1,333,883	1,334,678	1,646,665	2,981,343	8,226,946
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	(5,891,969)	-	(5,891,969)	(5,891,969)
Change in pension liability	(2,877,055)	-	(2,877,055)	-	(2,877,055)	3,735,820
Change in net assets	10,091,101	2,154,231	12,245,332	(3,829,968)	8,415,364	4,375,916
Net (deficit) assets, beginning of year	(6,889,047)	160,025,293	153,136,246	154,808,327	307,944,573	303,568,657
Net assets, end of year	$ 3,202,054	$ 162,179,524	$ 165,381,578	$ 150,978,359	$ 316,359,937	$ 307,944,573

	Program Services						Supporting Services					
	Curatorial and Collections	Exhibitions	Education and Public Programs	Membership Activities	Museum Stores	Total Program	Operating General and Administration	Other General and Administration	Development	Total Supporting	Total 2019	Total 2018
Personnel costs												
Salaries and wages	$ 10,977,970	$ 6,862,491	$ 1,782,152	$ 749,457	$ 1,685,839	$ 22,057,909	$ 3,615,792	$ -	$ 1,424,275	$ 5,040,067	$ 27,097,976	$ 25,996,488
Payroll taxes and benefits	4,454,615	1,798,463	589,708	218,568	555,260	7,616,614	870,182	-	305,990	1,176,172	8,792,786	9,509,137
Total personnel costs	15,432,585	8,660,954	2,371,860	968,025	2,241,099	29,674,523	4,485,974	-	1,730,265	6,216,239	35,890,762	35,505,625
Non-personnel costs												
Occupancy	3,392,864	1,220,898	299,561	758	60,409	4,974,490	150,863	-	122,934	273,797	5,248,287	4,545,080
Art acquisitions	4,744,011	-	-	-	-	4,744,011	-	-	-	-	4,744,011	5,100,235
Supplies	214,748	598,340	63,537	2,706	52,507	931,838	42,444	-	13,759	56,203	988,041	888,453
Equipment rental and maintenance	433,490	442,817	101,192	29,424	137,292	1,144,215	214,296	-	192,657	406,953	1,551,168	1,152,661
Postage and shipping	146,696	1,970,234	3,937	633,467	133,534	2,887,868	31,278	-	33,802	65,080	2,952,948	3,224,862
Travel	97,428	224,814	59,828	2,641	13,513	398,224	79,309	-	33,052	112,361	510,585	311,396
Conferences, meetings, and events	48,346	82,263	85,730	9,508	3,004	228,851	119,574	-	721,891	841,465	1,070,316	1,029,873
Advertising and promotion	19,733	1,309,758	1,462	45,124	1,108	1,377,185	731	-	530	1,261	1,378,446	1,121,935
Printing	416,206	214,361	91,556	161,551	45,874	929,548	78,928	-	168,546	247,474	1,177,022	1,606,014
Professional services	480,553	1,567,293	796,800	573,725	54,628	3,472,999	2,078,466	50,185	289,821	2,418,472	5,891,471	4,946,742
Professional development	65,863	73,770	6,472	7,550	7,200	160,855	88,980	-	13,482	102,462	263,317	163,450
Participation fees	-	704,631	-	-	-	704,631	-	-	-	-	704,631	164,945
Merchant fees and bank charges	11,836	500,664	5,082	244,928	153,538	916,048	39,124	-	44,292	83,416	999,464	838,315
Insurance	1,266,109	93,995	-	-	-	1,360,104	295,097	11,599	-	306,696	1,666,800	1,643,000
Interest expense	-	-	-	-	-	-	46,500	-	-	46,500	46,500	1,108,257
Depreciation and amortization expense	608,846	67,650	45,100	-	7,517	729,113	22,550	-	-	22,550	751,663	2,870,720
Miscellaneous	213,161	341,603	35,112	34,374	66,547	690,797	393,079	5,910	169,489	568,478	1,259,275	539,579
Total non-personnel costs	12,159,890	9,413,091	1,595,369	1,745,756	736,671	25,650,777	3,681,219	67,694	1,804,255	5,553,168	31,203,945	31,255,517
Total	$ 27,592,475	$ 18,074,045	$ 3,967,229	$ 2,713,781	$ 2,977,770	$ 55,325,300	$ 8,167,193	$ 67,694	$ 3,534,520	$ 11,769,407	$ 67,094,707	$ 66,761,142

The Fine Arts Museums of San Francisco
Combined Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows used in operating activities		
Change in net assets	$ 8,415,365	$ 4,375,916
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	751,663	652,028
Amortization of bond issuance costs	-	2,218,692
Change in pension liability	2,877,055	(3,735,820)
Proceeds from sale of art	(167,449)	(984,697)
Art acquisition expense	4,744,011	5,100,235
Amortization of beneficial interest in de Young Museum building	5,891,969	5,891,969
Investment income restricted/designated for capital projects	-	(997,784)
Loss on retirement of assets	622,156	-
Change in allowance for doubtful accounts	139,071	-
Change in long-term contribution discount	(77,683)	91,172
Change in inventory reserve for obsolescence	(8,847)	(44,921)
Bond interest and remarketing costs	-	1,134,480
Net unrealized and realized gains on investments	(2,847,785)	(8,856,163)
Contributions restricted for art acquisitions	(850,255)	(302,033)
Contributions restricted for investment in endowment	(6,900,000)	-
Change in beneficial interest in perpetual and other trusts	55,860	1,433
Change in operating assets and liabilities		
Notes, accounts, and other receivables	(71,325)	14,841
Contributions receivables	2,946,821	(6,136,736)
Prepaid expenses and other assets	137,174	96,023
Inventories	134,293	554,272
Accounts payable and accrued expenses	(2,472,378)	(274,109)
Deferred revenue	(213,938)	156,206
Agency funds	129,680	25,639
Net cash provided by (used in) operating activities	13,235,458	(1,019,357)
Cash flows from investing activities		
Purchase of investments	(38,512,555)	(181,143,296)
Sale of investments	27,329,007	243,497,927
Purchase of art	(4,744,011)	(5,100,235)
Proceeds from sale of art	167,449	984,697
Capital expenditures	(565,298)	(1,126,043)
Net cash provided by (used in) investing activities	(16,325,408)	57,113,050
Cash flows from financing activities		
Contributions restricted for investment in endowment	6,900,000	-
Contributions restricted/designated for capital projects	-	1,097,392
Investment income restricted/designated for capital projects	-	997,784
Redemption of bonds	-	(60,775,000)
Bond interest and remarketing costs	-	(1,134,480)
Capital lease payments	(12,235)	(23,308)
Contributions restricted for art acquisitions	850,255	302,033
Net cash provided by (used in) financing activities	7,738,020	(59,535,579)
Net change in cash and cash equivalents	4,648,070	(3,441,886)
Cash and cash equivalents, beginning of year	21,287,051	24,728,937
Cash and cash equivalents, end of year	$ 25,935,121	$ 21,287,051
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 46,500	$ 1,108,257

See accompanying notes.

NOTE 1 – ORGANIZATION AND PRINCIPLES OF COMBINATION

These combined financial statements consist of the Corporation of the Fine Arts Museums ("COFAM") and Fine Arts Museums Foundation ("FAMF") (collectively the "Fine Arts Museums of San Francisco," "Museums," or the "Organization"). COFAM is a nonprofit public benefit corporation formed in 1987 that operates most of the activities at the Fine Arts Museums of San Francisco. The COFAM Board of Trustees consists of the combined Boards of Fine Arts Museums of San Francisco and FAMF.

FAMF is a nonprofit public benefit corporation formed in 1963 that manages the Museums' endowment, certain programs, and art acquisition funds, as well as tax-exempt bonds (and related investments) issued for the new de Young building project, which opened in 2005. The FAMF Board of Trustees ("Board") is self-perpetuating.

The Fine Arts Museums of San Francisco consist of the de Young Museum and the Legion of Honor, and are governed by a self-perpetuating Board. The Museums collect, conserve, display, and interpret fine arts of all periods. The City and County of San Francisco ("City") owns the land and buildings in which the Museums operate and most of the collections, and provides partial operating support through an in-kind contribution for their care and maintenance. COFAM and FAMF have rent-free use of the Museums, which must be operated for the benefit of the public.

In 2002, COFAM and FAMF agreed with the City to raise private funds, issue bonds, design and construct the new de Young Museum building and, consistent with the requirement that the City hold title to buildings on City property, donate the completed building to the City. COFAM and FAMF are co-obligors on the bonds. In April 2018, all outstanding bonds were redeemed at par by FAMF.

All significant inter-entity accounts and transactions have been eliminated upon combination.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Implemented accounting pronouncement – During fiscal year 2019, the Organization adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board-designated amounts, and underwater endowments compositions of net assets with donor restriction and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the statement of financial position date, and expense by both their natural and functional classification, including methods used to allocate costs among program and support functions.

Due to the adoption of ASU No. 2016-14, as of June 30, 2018, $153,136,246 of unrestricted net assets have been reclassified to net assets without donor restrictions, and $75,177,111 of temporarily restricted net assets and $79,631,216 of permanently restricted net assets have been reclassified to net assets with donor restrictions.

Basis of accounting – The combined financial statements of the Organization have been prepared under accounting principles generally accepted in the United States of America for not-for-profit organizations (GAAP).

Net assets and changes therein are classified as follows:

- Net assets without donor restriction are net assets not subject to donor-imposed restrictions. Net assets without donor restriction may be designated for specific purposes by action of the governing board or otherwise limited by contractual arrangements with outside parties. The Operating Fund represents the core operating activity of the Foundation. The Other Fund represents the activity related to board-designated funds used for operating reserves and the transaction related to the new de Young Fund such as long-term rent-free use of the building and investments. The components of the Other Fund at June 30, 2019 and 2018, are as follows:

	2019	2018
New de Young Fund	$ 151,438,254	$ 156,222,736
Board-designated funds	10,741,270	3,802,557
Total Other Fund	$ 162,179,524	$ 160,025,293

- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met by actions of the Museums and/or the passage of time. Net assets with donor restrictions consist primarily of restricted grants, pledges, and other contributions, endowment funds, as well as unappropriated earnings on donor-restricted endowment funds. At June 30, 2019 and 2018, the majority of net assets with donor restrictions consisted of endowment funds, unappropriated earnings of donor-restricted endowment funds for art acquisition and exhibition support, contributions for education programs, and curatorial projects.

Revenues are reported as increases in net assets without donor restriction unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by the donor or by law. Expirations of net assets with donor restrictions (i.e., the donor-restricted purposes have been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets.

Prior year information – The combined 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 GAAP. Accordingly, such information should be read in conjunction with the Organization’s combined financial statements of the Corporation of the Fine Arts Museums and the Fine Arts Museums Foundation for the year ended June 30, 2018, from which the summarized information was derived.

Reclassification – Certain reclassifications have been made to the 2018 combined financial statements presentation for comparative purposes to conform with the presentation in the current year financial statements.

Use of estimates – The preparation of the combined financial statements in conformity with 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for long-lived assets, investments, pooled income funds, beneficial interest in perpetual trusts, pension liabilities, depreciation and amortization, and certain other accounts. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include all cash balances and highly liquid instruments with original maturities of three months or less, except those held in the pooled income funds and endowment. Cash and cash equivalents included $1,101,028 and $1,083,858 at June 30, 2019 and 2018, respectively, of City trust fund balances held for art acquisitions by the Organization. At times, cash deposits may exceed federally insured limits. Cash and cash equivalents held in money market funds that are considered nonoperating cash are intended for investment purposes and are classified separately under investments.

Short-term investments – Investments with maturity dates of one year or less, which are not considered cash or cash equivalents, have been classified as short-term investments.

Long-term investments – Long-term investments consist of cash, cash equivalents, and all investments in the endowment fund. Investments are held in marketable fixed income and equity securities and other investments acquired by purchase in the open market or by gift. Initially, purchased securities are recorded at cost, and those received as gifts are recorded at the proceeds of the sale of the gift in accordance with the Organization's contribution policy. Thereafter, investments in equity securities with readily determinable fair values and all fixed income investments are reported at fair value based upon quoted market prices. Certain investments are valued based on financial data supplied by the investee funds, at the pro rata interest in the net assets of portfolio funds, and at the fund's net contribution and allocated share of the undistributed profits and losses. Management's estimates are based on information provided by the fund managers.

Investment securities are exposed to various risks, such as changes in interest rates or credit and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities and other investments, it is at least reasonably possible that changes in value in the near term could materially affect the Organization's investments and total net assets balance.

Notes, accounts, and other receivables – Notes, accounts, and other receivables are shown net of an allowance for doubtful accounts of $99,541 and $0 at June 30, 2019 and 2018, respectively. Based on prior write-off history, overall economic conditions and the current receivable aging status of its donors, the Organization establishes an allowance for doubtful accounts, in any, at a level considered adequate to cover anticipated credit losses on outstanding accounts receivable. Bad debt recoveries are recorded as income when received. All receivables, other than Notes, are anticipated to be received within one year.

Contributions receivable – Contributions receivable represents unconditional promises to give (pledges). Contributions and grants receivable are reviewed for collectability and reserves for uncollectible amounts are established when needed. Based upon past experience and management's judgment, the contribution receivable allowance for doubtful accounts was $39,530 and $0 at June 30, 2019 and 2018, respectively. Unconditional promises to give that are expected to be collected in excess of one year are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable to the number of years the contribution is expected to remain outstanding. An additional discount is added to the present value of contributions, which represents an additional factor due to market, credit, and other risks in the fair value measurements.

Inventories – Inventory purchased for resale is valued at average cost. Other inventories, principally publications and merchandise produced especially for the Organization's stores, are valued at cost, less any reimbursements received. The inventory reserve for obsolescence totals $104,477 and $113,324 at June 30, 2019 and 2018, respectively.

Buildings, furniture, fixtures, and equipment – Title to the land, buildings, and improvements used by the Organization rests with the City. Land, buildings, and improvements are recorded by the City. Accordingly, such assets are not capitalized or depreciated in the Organization's combined financial statements.

The new de Young Museum building was funded entirely by donations and bond proceeds from a 2002 offering issued by COFAM and FAMF as co-obligors. When the new building was completed, it was transferred to the City, which provides rent-free use of the building to FAMF to be operated as a museum for the public. The building is not capitalized or depreciated in the Organization's combined financial statements; instead, as discussed in Note 10, the Organization has recorded as beneficial interest, the project cost of the new de Young Museum building in the combined financial statements.

Furniture, fixtures, and equipment are recorded at cost. Depreciation of furniture, fixtures, and equipment, including amortization of capital leases, is provided over the estimated useful lives of the respective assets on the straight-line basis. The estimated useful lives range from 3 to 10 years.

Impairment of long-lived assets – The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. As of June 30, 2019 and 2018, no such write-downs have occurred

Beneficial interest in perpetual trusts – Beneficial interest in perpetual trusts represents the fair value of the Organization's future beneficiary payments receivable from trusts held in perpetuity by an external trustee. The fair value of the Organization's perpetual interest is estimated at the current fair value of trust assets, which is based upon quoted market prices. The expected payments to the beneficiaries are calculated using a long-term U.S. Treasury Bond rate at the date of recognition and the Internal Revenue Code's mortality table. Changes in the fair value, including proceeds, of the Organization's interest are recorded as an increase or decrease in net assets with donor restrictions.

Deferred revenue – Deferred revenue consists primarily of admissions sold in advance, unearned facility rental fees, and unearned art education fees.

Agency funds – COFAM is the trustee for certain assets ("Agency Funds") that are held in trust. Agency Funds represent assets that are held by COFAM on behalf of the trustor organizations. These assets consist of cash and investments. Accordingly, such assets are reflected as assets and corresponding liabilities in the combined financial statements.

Bonds payable –Interest expense totaled $0 and $991,257 for the years ended June 30, 2019 and 2018, respectively, and is included in interest expense in the combined statement of functional expenses. The bonds were fully redeemed at par in April 2018.

Revenue recognition

Admissions – Admissions revenue is recognized when earned.

Membership dues – Membership dues are recorded in the period received as they are deemed contributions.

Museum store sales, net – The Organization's store sales arise primarily from sale of merchandise. The Organization's retail stores generally record revenue at the point of sale. For online sales, the Organization recognizes revenue upon shipment of the product to customers. The cost of goods sold expense for the fiscal years ended June 30, 2019 and 2018, was $3,283,590 and $2,733,740, respectively.

Contributions – Contributions and grants are recognized at fair value, as revenue, when received or unconditionally promised and collection is deemed to be reasonably certain.

The Organization reports contributions and grants as with donor restrictions if such gifts are received with donor stipulations that limit the use of the donated assets, unless there are written agreements which supersede those stipulations. When the restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Contributions with donor restrictions whose restrictions are met in the same year they are received are reported as contributions without donor restrictions.

Contributions, which may include unconditional promises to give (pledges), are recognized as revenue in the period given or promised. Unconditional promises to give that are expected to be collected in excess of one year are recorded at the present value of their estimated future cash flows.

Interests in split-interest agreements are recorded as contributions at fair value when notification of the interest is received and the fair value is determinable. Contributed investments are sold immediately upon receipt and related contribution revenue is recorded at the sales proceeds amount.

Conditional promises to give are recognized in the period in which the condition is substantially met. There were no conditional contributions for the years ended June 30, 2019 and 2018.

Contributions are derived primarily from donors in Northern California.

Contributed services – The Organization's trustees and a substantial number of unpaid volunteers have made significant contributions of their time to support the Organization's programs. The value of this contributed time is not reflected as revenue in the combined financial statements, as the services do not meet the criteria for recognition under GAAP.

The City provides partial operating support through an in-kind contribution for the care and maintenance of the de Young Museum and Legion of Honor buildings and collections that meet the criteria for recognition and is included in the accompanying combined financial statements as City appropriation.

Functional allocation of expenses – Certain costs have been allocated among the programs and supporting services that are benefited based on periodic review of personnel time, department headcount, and square footages. Management periodically reviews the functional category for appropriateness. Total program expenses include the exhibitions program; curatorial, conservation, and education programs; membership; marketing and communications and museums stores, including the related costs of sales.

Bond issuance costs – The costs related to bonds were amortized on a straight-line basis over the life of the bonds, which approximated the effective interest method. Amortization expense recognized in the fiscal years ended June 30, 2019 and 2018, amounted to $0 and $2,218,692, respectively, and is included in amortization of bond issuance costs expense in the combined statement of activities. There will be no amortization expense in the future as the bonds were fully redeemed at par in April 2018.

Advertising costs – Advertising costs are expensed in the period incurred. Advertising expense for the years ended June 30, 2019 and 2018, were $1,387,520 and $1,399,574, respectively, and are included in advertising and promotion operating expenses.

Collections – The permanent art collections consist primarily of art objects representative of the following areas: American decorative arts and sculpture; American painting; European decorative arts and sculpture; European painting; textiles; graphic arts; ancient art; and art of Africa, Oceania, and the Americas. Objects are held for educational, research, and curatorial purposes.

Under the Museums' collection policy, all objects are catalogued, cared for, and preserved. Activities verifying their existence and assessing their condition are performed regularly. Deaccession proceeds must be used to acquire other collection objects within the same curatorial area as the original object.

Title to the permanent collection rests with the City or FAMF. If accepted into the City's permanent art collection, donated art objects become the property of the City. Art that is held by FAMF is generally subject to donor restriction. For the years ended June 30, 2019 and 2018, deaccessions consisted of a variety of objects deemed no longer relevant to the permanent collection based upon the recommendations of curators and approval by the Museums' Director, the FAMF Board Acquisitions Committee, and the Museums' Board of Trustees.

In conformity with the practice generally followed by museums, no value is assigned to the collections in the combined 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, or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors.

Operating and nonoperating activities – All activities are considered operating except for realized and unrealized gains on investments, amortization of beneficial interest in de Young Museum, and changes in pension liability.

Fair value of financial instruments – The fair value of cash, receivables, accounts payable, and accrued expenses at June 30, 2019 and 2018, approximates the carrying amount because of the relatively short-term maturities of these financial instruments.

Income taxes – COFAM and FAMF have each obtained determination letters from the Internal Revenue Service and the California Franchise Tax Board to the effect that they qualify as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively. Accordingly, the primary operations of COFAM and FAMF are considered exempt from federal income and state franchise taxes.

The Organization has evaluated its current tax positions and has concluded that as of June 30, 2019 and 2018, it does not have any uncertain tax positions for which a reserve would be necessary.

The Organization has immaterial unrelated business taxable income, and therefore, no provision for income taxes has been provided in these combined financial statements.

Recent accounting pronouncements – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new standard on revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. In July 2015, the FASB voted to amend ASU No. 2014-09 by approving a one-year deferral of the effective date as well as allowing early adoption as of the original effective date, but not before the annual periods beginning after December 15, 2016. The standard is effective for the fiscal year ending June 30, 2020. Management is currently evaluating this new standard and the impact it will have on the Organization's combined financial statements.

In June of 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958*, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the Organization's year ending June 30, 2020. Earlier application is permitted. The Organization is currently assessing the potential impact of this ASU on its combined financial statements.

In January 2016, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which improves the reporting of net benefit cost in the financial statements. ASU No. 2017-07 applies to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. ASU No. 2017-07 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption is effective for the Organization's fiscal year ending June 30, 2020. Management is currently evaluating the impact of the provision of ASU No. 2017-07 on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2020, for nonpublic entities, with early adoption permitted. The adoption is effective for the Organization's fiscal year ending June 30, 2022. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the financial statements.

In March 2019, the FASB issued ASU No. 2019-03, *Updating the Definition of Collections*. ASU No. 2019-03 modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. The Organization is currently assessing the potential impact of this ASU on its financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the combined financial statements date but before the combined financial statements are available to be issued. The Organization recognizes in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the combined financial statements.

The Organization has evaluated subsequent events through December 19, 2019, which is the date the combined financial statements were available to be issued.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, funds held for operating purposes not expected to be expended within one year, funds held for art acquisitions, trust assets, endowments and accumulated earnings net of appropriations within one year, and board-designated endowments. These board designations could be drawn upon if the Board approves the action.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019:

Financial assets	
Cash and cash equivalents	$ 25,935,121
Short-term investments	14,501,959
Notes, accounts, and other receivables	3,051,576
Contributions receivable, net	6,133,245
Long-term investments	150,637,505
Beneficial interest in perpetual trusts	2,370,046
Financial assets at June 30, 2019	202,629,452
Less those unavailable for non-program related general expenditure within one year, due to:	
Agency funds	1,233,176
Funds held for operating purposes greater than one year	2,043,254
Funds held for art acquisitions	7,323,226
Pledges, grants, and other receivables collectible beyond one year	3,914,114
Beneficial interest in perpetual trusts	2,370,046
Board-designated endowment	10,741,270
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	123,853,435
Financial assets available to meet cash needs for related general expenditures within one year	$ 51,150,931

The Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Organization invests cash in excess of daily requirements in short-term investments and money market funds.

NOTE 4 – FAIR VALUE MEASUREMENTS

The Organization has characterized the fair value of its financial instruments measured at fair value on a recurring basis, based on the priority of the inputs used to value the instruments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instruments.

Financial instruments measured at fair value on a recurring basis in the combined statements of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 – These consist of investments where values are based on unadjusted quoted prices for identical assets in an active market that the Organization has the ability to access. These investments consist of exchange-traded investments in equity securities and mutual funds;

Level 2 – These consist of investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and government bonds that trade infrequently. These investments are valued using maturity and interest rates as observable inputs.

Level 3 – These consist of investments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Unobservable inputs reflect the Organization’s own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk and liquidity). Unobservable inputs are developed based on the best information available in the circumstances and may include the Organization’s own data.

Fair value measurements for the fiscal years ended June 30, 2019 and 2018, are as follows:

	June 30, 2019				
	Level 1	Level 2	Level 3	Investments Held at NAV	Total
Equity securities and funds:					
Domestic	$ 27,407,840	$ -	$ -	$ 31,161,891	$ 58,569,731
International	30,468,044	-	-	16,978,864	47,446,908
Fixed Income:					
Corporate obligation	18,175,874	-	-	-	18,175,874
Government and agency obligation	22,478,984	-	-	-	22,478,984
Alternative Investments:					
Domestic multi-asset allocation	6,122,994	-	-	-	6,122,994
International multi-asset allocation	7,119,903	-	-	-	7,119,903
Venture capital funds	-	-	-	1,639,709	1,639,709
Hedge funds					
Multi-strategy hedge funds	-	-	-	69,982	69,982
Commingled funds					
International equity	-	-	-	2,830,379	2,830,379
Beneficial interest in remainder trusts	-	-	2,370,046	-	2,370,046
Property	-	-	685,000	-	685,000
Total instruments measured at fair value	$ 111,773,639	$ -	$ 3,055,046	$ 52,680,825	$ 167,509,510

	June 30, 2018				
	Level 1	Level 2	Level 3	Investments Held at NAV	Total
Equity securities and funds:					
Domestic	$ 25,442,268	$ -	$ -	$ 29,190,721	$ 54,632,989
International	27,180,034	-	-	15,644,689	42,824,723
Fixed Income:					
Corporate obligation	19,196,677	-	-	-	19,196,677
Government and agency obligation	18,355,468	616,441	-	-	18,971,909
Alternative Investments:					
Domestic-multi-asset allocation	3,751,600	-	-	-	3,751,600
International-multi-asset allocation	3,711,702	-	-	-	3,711,702
Venture capital funds	-	-	-	1,415,265	1,415,265
Hedge funds					
Long/short equity	-	-	-	276,259	276,259
Multi-strategy hedge funds	-	-	-	1,669,483	1,669,483
Other	-	-	-	1,619,515	1,619,515
Commingled funds					
International equity	-	-	-	2,353,010	2,353,010
Beneficial interest in remainder trusts	-	-	2,425,906	-	2,425,906
Property	-	-	685,000	-	685,000
Total instruments measured at fair value	$ 97,637,749	$ 616,441	$ 3,110,906	$ 52,168,942	$ 153,534,038

From time to time investments will be transferred between Level 3 and Level 2 based on the characteristics of the investments. The Organization’s policy is to recognize transfers in and transfers out at the beginning of the period in which the event or change in circumstances occurred.

The Organization has $1,190,708 and $1,818,435 at June 30, 2019 and 2018, respectively, of endowment cash and equivalents not included in the fair value measurement disclosure.

Alternative investments include redeemable interests in hedge funds and commingled pools, and nonredeemable interests in real estate, real assets, and private equity funds. Alternative investments may be structured as limited partnerships, limited liability companies, commingled trusts, or offshore investment funds. This class of assets also includes direct investment in private companies, real estate, and real assets. Fair value associated with these investments has been based on information provided by the individual fund managers.

The Museums use the net asset value ("NAV") to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Valuation process – Finance staff determine fair value measurements for assets and liabilities under the supervision of the Chief Financial Officer. The policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income, and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis, or as necessary based on current market conditions and other third-party information. In determining the reasonableness of the methodology, the Organization evaluates a variety of factors, including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms while others are substantiated utilizing available market data including, but not limited, to market comparable, qualified opinions, and discount rates and mortality tables for split interest agreements.

Level 3 valuation techniques and inputs –

Property – Direct investments in land are reviewed no less than annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Valuation inputs may include, but are not limited to, the initial investment amount (cost) and qualified appraisal. Fair value is determined through third-party appraisals. The following table presents the roll-forward of Level 3 property carried at fair value on the combined statements of financial position for the years ended June 30, 2019 and 2018:

	2019	2018
Beginning balance	$ 685,000	$ 685,000
Unrealized loss	-	-
Ending balance	$ 685,000	$ 685,000

Beneficial interests – The Organization uses a discounted cash flow methodology to determine fair value of the beneficial interests in nontrusteed charitable remainder trusts. Inputs used for valuation of remainder interests in nontrusteed charitable trusts include financial statements provided by the trustee, the life expectancy of the income beneficiaries, and an applicable discount rate determined by the Organization. The fair value of beneficial interests is reviewed and updated annually by adjusting the current life expectancies of the income beneficiaries, applicable discount rate and market value of each trust. A decrease in the discount rate and a longer life expectancy will decrease the fair value of the beneficial interest.

The following table presents a roll-forward of the fair value of beneficial interests in split interest agreements (including the change in fair value) for nontrusteed charitable remainder trusts and life estates, as shown on the combined statements of financial position for the years ended June 30, 2019 and 2018:

	2019	2018
Beginning balance	$ 2,425,906	$ 2,427,339
Change in value due to change in actuarial life expectancy and fair value of underlying trust assets	(55,860)	(1,433)
Ending balance	$ 2,370,046	$ 2,425,906

The following table presents the unfunded commitments, redemption frequency, and notice period for investments in entities that calculate fair value using net asset value per share or its equivalent:

Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Timing to Draw Down Commitments	Redemption Term	Redemption Restrictions
Domestic funds	$ 31,161,891	8	N/A	N/A	N/A	N/A	N/A
International funds	$ 16,978,864	2	N/A	N/A	N/A	N/A	N/A
Venture funds	$ 1,639,709	5	10 to 15 years	$ 1,391,087	From 5 years up to 15 years	N/A	Prohibited until liquidation date
Multi-strategy hedge funds	$ 69,982	2	N/A	No unfunded commitment	N/A	Currently being liquidated by manager	Currently being liquidated by manager
International equity	$ 2,830,379	1	N/A	No unfunded commitment	N/A	Quarterly	60 Days Notice

Venture capital – The Organization's venture capital investment strategy seeks capital appreciation in companies across a broad range of business stages. The venture capital investments are valued no less than quarterly based on the net asset value reported by the fund manager as a practical expedient.

Hedge funds – This class includes investments in actively managed hedge funds and fund-of-funds employing a variety of strategies, including but not limited to multi-strategy, absolute return, long/short, arbitrage, event-driven, distressed debt, and credit. Hedge funds have the ability to invest long and short, shift from a net long position to a net short position, apply leverage, invest in derivatives, and invest in the debt or equity of public and private companies in domestic and foreign markets. Hedge funds are valued no less than quarterly based on the net asset value reported by the fund manager as a practical expedient.

Commingled funds – This class includes investment strategies in international equity, domestic funds, and international funds. This call of investments are actively managed commingled trust funds that invest in stocks and other securities issued by companies in domestic and foreign markets. Investments are held within a commingled trust or limited partnership structure. The investments strategy is to seek investment results that correspond generally to the price and yield performance of a particular index. Commingled funds are valued no less than quarterly based on the net asset value reported by the fund manager as a practical expedient.

NOTE 5 – NOTES RECEIVABLE

The Organization has a promissory note from the Music Concourse Community Partnership. The note has a fixed interest rate of 6% and matures on December 1, 2042. The note receivable including accrued interest at June 30, 2019 and 2018, totaled $1,210,781 and $1,145,201, respectively. This amount is included in the notes, accounts, and other receivables balance in the combined statements of financial position.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable – At June 30, 2019 and 2018, the outstanding contributions receivable for the benefit of Museums and the new de Young building are due as follows:

	2019	2018
Less than one year	$ 3,539,256	$ 4,742,744
One to five years	2,703,333	4,446,666
Less allowance for doubtful accounts	(39,530)	-
Less unamortized discount of 1.89% to 2.65%	(69,814)	(147,497)
Contributions receivable, net	$ 6,133,245	$ 9,041,913

NOTE 7 – FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures, and equipment is classified in the operating fund and under the following functional areas at June 30, 2019 and 2018:

	2019	2018
Exhibitions	$ 1,181,610	$ 1,833,653
Curatorial, conservation, and education	1,355,797	1,501,646
Administration	7,328,540	7,467,998
Development	95,255	101,863
Construction in progress	-	1,255,274
	9,961,202	12,160,434
Less: accumulated depreciation and amortization	(7,793,185)	(9,183,896)
	$ 2,168,017	$ 2,976,538

Depreciation charged to the operating fund for the fiscal years ended June 30, 2019 and 2018, were $751,663 and $652,028, respectively.

NOTE 8 – NEW DE YOUNG MUSEUM BUILDING

In 1998, the Organization's Board approved the construction of a new de Young Museum building in Golden Gate Park. COFAM was responsible for project management and fundraising. Total project costs were approximately $206 million. The building opened on October 15, 2005. Upon completion, the City took title to the building because under the terms of the Charter of the City, only the City may hold title to buildings on City property. These assets cannot be converted or sold for the benefit of the Organization. As discussed in Note 9, the Museums' beneficial interest in the building is reflected in the accompanying combined statement of financial position because the project costs were funded through support from the Organization's donors and the bonds issued by COFAM and FAMF, the assets are integral to operations, and the Organization has free use of the facilities for its charitable purposes. As noted below, the bonds were fully repaid in April 2018. Prior to repayment, the full amount of the outstanding bonds was reflected on the Organization's financial statements with FAMF and COFAM as co-obligors.

In June 2002, the ABAG Finance Authority for Nonprofit Corporations (the "Authority") issued $143 million in Auction Rate Securities and Variable Rate Demand Securities (Series 2002A and 2002B bonds, respectively) on behalf of COFAM and FAMF. In February 2003, the 2002B bonds were converted to Auction Rate Securities. The proceeds were used to finance a portion of the costs associated with the construction of the new de Young Museum building.

In fiscal year 2012, the Organization purchased a total of $81,950,000 par value of the bonds. In April 2018, FAMF redeemed the remaining bonds at par.

NOTE 9 – BENEFICIAL INTEREST IN DE YOUNG MUSEUM BUILDING

As discussed in Note 8, COFAM was responsible for project management and fundraising for the $206 million new de Young Museum building project, and FAMF and COFAM were co-obligors on the related public bonds that financed the project. Consistent with provisions of the City Charter, the City holds title to the building and COFAM and FAMF have an exclusive right to operate the facility for the benefit of the public as a museum. Because the building is an integral part of the Organization's operations and the Organization has rent-free use, the project cost of the building is included as an amortizing asset in the accompanying combined financial statements as beneficial interest in de Young Museum building, net. The project cost of $206 million is amortized on a straight-line basis over 35 years. Amortization expense totaled $5,891,969 and $5,891,969 for the years ended June 30, 2019 and 2018, respectively.

There is no debt associated with the Legion of Honor building. The building was a gift to the City in 1915 and the fair value of the use of the building is not estimable and, therefore, not recorded in the accompanying combined financial statements. Beneficial interest in de Young Museum building, net, totaled $125,760,507 and $131,652,476 at June 30, 2019 and 2018, respectively.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at June 30, 2019 and 2018:

	June 30, 2019			
	Time Restricted	Purpose Restricted	Endowment - Corpus	Total
General operations	$ 20,591,780	$ -	$ 15,504,516	$ 36,096,296
Curatorial and collections	2,379,775	5,335,851	11,554,295	19,269,921
Exhibitions	2,332,219	6,504,692	11,771,760	20,608,671
Education and public programs	1,544,944	1,097,673	950,636	3,593,253
Art acquisitions	24,065,839	7,545,140	39,799,239	71,410,218
Total net assets with donor restrictions	$ 50,914,557	$ 20,483,356	$ 79,580,446	$ 150,978,359

	June 30, 2018			
	Time Restricted	Purpose Restricted	Endowment - Corpus	Total
General operations	$ 22,283,309	$ -	$ 15,504,516	$ 37,787,825
Curatorial and collections	2,486,108	4,568,595	11,610,155	18,664,858
Exhibitions	2,407,058	6,736,499	11,771,760	20,915,317
Education and public programs	1,582,400	1,522,177	950,636	4,055,213
Art acquisitions	24,866,242	8,724,723	39,794,149	73,385,114
Total net assets with donor restrictions	$ 53,625,117	$ 21,551,994	$ 79,631,216	$ 154,808,327

Net assets with donor restrictions are expected to be released from restriction, except those held in perpetuity, between the years ending June 30, 2020 through June 30, 2024, or in accordance with the spending policy.

NOTE 11 – ENDOWMENT

The Organization's endowment consists of approximately 40 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of the Organization has interpreted the California enacted version of the California Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board.

In accordance with CUPMIFA, the Board considers the following factors in making a determination to appropriate or accumulate endowment funds:

I. the duration and preservation of the fund

II. the purposes of the Organization and the endowment fund

III. general economic conditions

IV. the possible effect of inflation and deflation

V. the expected total return from income and the appreciation of investments

VI. other resources of the Organization

VII. the investment policies of the Organization

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new endowment contributions and continued appropriation for certain programs that was deemed prudent by the Board. At June 30, 2019, the Foundation had two endowment funds with deficiencies of this nature totaling approximately $12,821. The fair value and corpus value of those underwater funds were $162,843 and $175,664, respectively, at June 30, 2019. These deficiencies are reflected in net assets with donor restrictions. The underwater endowments for the year ended June 30, 2018 were considered to be insignificant to the financial statements as a whole.

Return objectives and risk parameters – The Organization 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 Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of at least the Consumer Price Index plus 5.20% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy by which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The Organization has a policy of appropriating for distribution each year 5.20% of its endowment fund's average fair value over the prior 12 quarters through the period ending March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of at least the Consumer Price Index annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Of the authorized 5.20% distribution for the years ended June 30, 2019 and 2018, 5% was allocated to provide support for art acquisitions and COFAM's operations, and 0.20% was allocated to fund FAMF's operating expenses, which did not include investment advisory fees of $546,518 and $778,086 for 2019 and 2019, respectively.

Endowment net asset composition by type of fund as of June 30, 2019 and 2018, are as follows:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original endowment gift amount	$ -	$ 79,580,446	$ 79,580,446
Accumulated earnings	-	47,645,426	47,645,426
Total donor-restricted endowments	-	127,225,872	127,225,872
Board-designated endowments	10,741,270	-	10,741,270
Total endowment funds	$ 10,741,270	$ 127,225,872	$ 137,967,142

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original endowment gift amount	$ -	$ 79,631,216	$ 79,631,216
Accumulated earnings	-	49,250,893	49,250,893
Total donor-restricted endowments	-	128,882,109	128,882,109
Board-designated endowments	3,802,557	-	3,802,557
Total endowment funds	$ 3,802,557	$ 128,882,109	$ 132,684,666

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018, are as follows:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 3,802,557	$ 128,882,109	$ 132,684,666
Investment return			
Investment income	103,185	3,064,895	3,168,080
Net appreciation (realized and unrealized)	55,519	1,793,781	1,849,300
Total investment return	158,704	4,858,676	5,017,380
Contributions	6,900,000	100	6,900,100
Transfer	104,339	(104,339)	-
Distribution of endowment assets for expenditure	(224,330)	(6,410,674)	(6,635,004)
Endowment net assets, end of year	$ 10,741,270	$ 127,225,872	$ 137,967,142

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 5,704,866	$ 127,734,276	$ 133,439,142
Investment return			
Investment income	78,690	1,494,878	1,573,568
Net appreciation (realized and unrealized)	317,814	6,899,066	7,216,880
Total investment return	396,504	8,393,944	8,790,448
Contributions	-	1,221	1,221
Distribution of endowment assets for expenditure	(2,298,813)	(7,247,332)	(9,546,145)
Endowment net assets, end of year	$ 3,802,557	$ 128,882,109	$ 132,684,666

NOTE 12 – DEFINED BENEFIT PLAN

COFAM has a defined benefit pension plan (the “Plan”) covering all eligible employees hired prior to November 1, 2002, who completed one year of employment, during which they were paid for 1,000 hours of service. During fiscal year 2018, the Plan was amended to freeze future benefit accruals for all participants effective June 30, 2018, except for those participants who are employed at COFAM under a collective bargaining agreement. The benefits are based on years of service and the employee’s compensation during the last five years of employment. COFAM’s funding policy is to contribute annually at least the minimum amount calculated by its actuaries in accordance with Section 412 of the Internal Revenue Code. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Pension expense under the Plan was $(194,878) and $859,149 in 2019 and 2018, respectively. The Plan’s assets are comprised of investments managed by multiple investment managers.

The Organization accounts for its pension obligation in accordance with GAAP, which requires an additional minimum pension liability adjustment when the actuarial present value of projected benefit obligation exceeds plan assets. The projected benefit obligation is also required to be valued as of the Organization’s fiscal year end. The Organization’s adjustment to the minimum liability at June 30, 2019 and 2018, of $(2,877,055) and $3,735,820, respectively, is reported in the operating fund after the change in net assets without donor restrictions from operations. By definition, the adjustment is not an expense but rather represents the gains or losses and prior service costs or credits that arose during the period.

The following table provides a reconciliation of the changes in the Plan's benefit obligations and fair value of assets for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
Change in projected benefit obligation		
July 1 projected benefit obligation	$ 33,625,024	$ 35,818,414
Service cost	96,506	393,192
Interest cost	1,405,178	1,377,415
Amendment	-	(1,090,019)
Actuarial (gain) loss	3,347,705	(1,363,440)
Benefit payments	(1,684,504)	(1,510,538)
June 30 projected benefit obligation	36,789,909	33,625,024
Change in plan assets		
July 1 fair value of plan assets	26,923,742	24,882,461
Actuarial return on plan assets	2,269,171	2,295,352
Employer contribution	753,000	1,358,000
Expenses	(101,959)	(101,533)
Benefit payments	(1,684,504)	(1,510,538)
June 30 fair value of plan assets	28,159,450	26,923,742
Funded status reconciliation at June 30	$ (8,630,459)	$ (6,701,282)
Amounts recognized in the statement of financial position		
Noncurrent liabilities	$ (8,630,459)	$ (6,701,282)
Net amount recognized	(8,630,459)	(6,701,282)
Amounts recognized in net assets		
Net losses	9,531,309	6,654,254
Net amount recognized	$ 9,531,309	$ 6,654,254
Accumulated benefit obligation at end of year	$ 36,367,756	$ 33,225,592

COFAM used a June 30, 2019 and 2018, measurement date for its pension plan.

The net periodic pension cost for pension benefits for the years ending June 30, 2019 and 2018, includes the following components:

	Pension Benefits 2019	Pension Benefits 2018
Service cost	$ 96,506	$ 393,192
Interest cost	1,405,178	1,377,415
Expected return on plan assets	(1,854,663)	(1,720,669)
Amortization of net loss	158,101	809,211
Net periodic benefit cost	$ (194,878)	$ 859,149

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2019 and 2018:

	Pension Benefits 2019	Pension Benefits 2018
Discount rate	4.22%	3.93%
Rate of compensation	2.50%	2.50%
Expected return on plan assets	7.00%	7.00%

The discount rate used to determine the projected benefit obligation was 3.52% and 4.22% as of June 30, 2019 and 2018, respectively.

Other changes recognized:

	Pension Benefits 2019	Pension Benefits 2018
Net loss/(gain)	$ 3,035,156	$ (2,926,609)
Amortization of net loss	(158,101)	(809,211)
Total recognized	$ 2,877,055	$ (3,735,820)
Total recognized in net periodic benefit cost and change in net assets	$ 2,682,177	$ (2,876,671)

Plan assets – To develop the 7% expected long-term rate of return on assets assumption, an investment strategy was designed to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment markets outlook utilized both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the specific needs of the Plan. The core asset allocation utilizes multiple investment managers in order to maximize the Plan's return while minimizing risk.

The weighted-average target asset allocation for the Plan is 56% equity funds, 38% debt securities, and 6% real estate. These target asset allocations are meant to result in a favorable long-term rate of return from a diversified portfolio. For the Organization's funded pension plan, the actual weighted-average asset allocations at June 30, 2019 and 2018, by asset category are as follows:

Asset Category	Plan Assets at June 30	
	2019	2018
Separate Investment Accounts		
Equity securities	56%	56%
Debt securities	38%	38%
Real estate	6%	6%
	100%	100%

The asset allocation for the Plan includes highly liquid equity, government, and real estate securities investments. The investments are considered to be Level 2 for the years ended June 30, 2019 and 2018. The fair values of the funded pension plan assets as of June 30, 2019 and 2018, by asset categories are as follows:

Asset Category	Plan Assets at June 30	
	2019	2018
Separate Investment Accounts		
Equity securities	$ 15,687,892	$ 15,072,500
Debt securities	10,821,785	10,165,198
Real estate	1,649,773	1,686,044
	$ 28,159,450	$ 26,923,742

Cash flows – Expected plan benefit payments to participants for the next five fiscal years and thereafter are as follows:

Years Ending,	Amount
2020	$ 1,989,450
2021	1,976,302
2022	2,019,693
2023	2,071,749
2024	2,137,684
2025 to 2029	11,100,662

Contributions – The Organization expects to contribute $835,590 to its pension plan in fiscal year 2020.

NOTE 13 – DEFINED CONTRIBUTION PLAN

COFAM adopted a defined contribution benefit 401(k) plan for all new employees hired after October 31, 2002. Employees hired before that date continue in the existing defined benefit pension plan. During fiscal year 2018, the 401(k) plan was amended, effective July 1, 2018, to provide that employees hired prior to November 1, 2002, are eligible to participate in the 401(k) plan and to receive any matching contribution.

The defined contribution plan covers all employees scheduled to work 1,000 hours or more per year. The Organization's matching contribution is made with each pay period. The Organization's matching contribution varies based on each employee's years of service and their contributions. The cost recognized by the Organization for the 401(k) plan contributions and administration in 2019 and 2018, was $500,397 and $378,510, respectively.

NOTE 14 – RELATED-PARTY TRANSACTIONS

For the years ended June 30, 2019 and 2018, the City's in-kind appropriation for the Organization amounted to $16,044,378 and $14,931,624, respectively. Art purchased with deaccessioned funds by the Organization on behalf of the City totaled $150,279 and $572,890 for the years ended June 30, 2019 and 2018, respectively.

Contributions from trustees were approximately $2,395,000 and $9,199,000 during the years ended June 30, 2019 and 2018, respectively. Pledges receivable, net of discounts, due from trustees totaled $3,481,500 and $5,718,573 as of June 30, 2019 and 2018, respectively.

Included in notes, accounts, and other receivables at June 30, 2019 and 2018, is a noninterest-bearing employee relocation loan of $ 0 and $150,000, respectively, which is collateralized by a deed of trust.

NOTE 15 – LEASED PROPERTY

The Organization leases warehouse space, office space, and certain office equipment under operating and capital leases. Rent expense on all leases of $604,137 and $569,442 was incurred for the years ended June 30, 2019 and 2018, respectively.

The 35-year lease for the new de Young Museum building is rent free (see Note 9).

The following is a schedule of future minimum lease payments for operating leases with remaining terms in excess of one year at June 30, 2019:

	Operating Leases
2020	$ 632,408
2021	310,524
2022	110,370
2023	33,360
2024	33,360
Thereafter	41,700
Total minimum lease payments	$ 1,161,722

NOTE 16 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting business, the Organization may become involved in litigation and other administrative proceedings. Some of these proceedings may result in penalties or judgment being assessed against the Organization which, from time to time, may have an impact on net assets. It is the opinion of management that the aforementioned proceedings, individually or in the aggregate, will not have a material adverse effect on the Organization's combined financial position.

NOTE 17 – CONCENTRATIONS OF RISK

The Organization has defined its financial instruments, which are potentially subject to credit and market risk as cash, pledge receivables, and contribution revenue. Approximately 48% and 53% of pledges receivable are from one donor at June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, approximately 55% of total contribution revenue was received from one donor and, 27% and 10% were received from two donors, respectively.

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