Report of Independent Auditors and
Combined Financial Statements

The Fine Arts Museums of San Francisco

June 30, 2017

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MOSSADAMS

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 statement of financial position as of June 30, 2017, and the related combined statements of unrestricted revenues, expenses, and other changes in unrestricted net assets, changes in net assets, 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, 2017, 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 a Matter

As described in Note 17 to the combined financial statements, as of June 1, 2016, the Organization changed its accounting policy relating to capitalizing its art collection held by the Organization, to expense the collection rather than capitalize it. Our opinion is not modified with respect to this matter.

Moss Adams LLP

San Francisco, California
December 21, 2017

Combined Financial Statements

The Fine Arts Museums of San Francisco
Combined Statement of Financial Position

June 30, 2017

	Operating Fund	New de Young Fund	Endowment Fund	Total
Assets				
Cash and cash equivalents	$ 14,627,322	$ 8,692,033	$ 1,409,582	$ 24,728,937
Interfund receivables (payables)	801,814	(471,852)	(329,962)	-
Short-term investments	788,367	63,409,540	-	64,197,907
Notes, accounts, and other receivables	2,001,412	1,082,910	10,312	3,094,634
Contributions receivable, net	3,026,746	1,066,995	-	4,093,741
Prepaid expenses	455,693	-	-	455,693
Inventories	1,624,476	-	-	1,624,476
Furniture, fixtures, and equipment, net	2,502,523	-	-	2,502,523
Pooled income funds	124,629	-	-	124,629
Long-term investments	84,609	10,402,213	129,921,871	140,408,693
Beneficial interest in perpetual trusts	-	-	2,427,339	2,427,339
Beneficial interest in de Young Museum building, net	-	137,544,444	-	137,544,444
Total assets	$ 26,037,591	$ 221,726,283	$ 133,439,142	$ 381,203,016
Liabilities and Net (Deficit) Assets				
Accounts payable	$ 3,569,045	$ -	$ -	$ 3,569,045
Accrued expenses	2,349,132	-	-	2,349,132
Deferred revenue	1,110,521	-	-	1,110,521
Capital lease obligations	35,543	-	-	35,543
Bonds payable, net of debt issuance cost	-	58,556,308	-	58,556,308
Agency funds	1,077,857	-	-	1,077,857
Accrued pension liability	10,935,953	-	-	10,935,953
Total liabilities	19,078,051	58,556,308	-	77,634,359
Net (deficit) assets				
Unrestricted				
General	(13,958,793)	161,660,721	-	147,701,928
Board designated	-	-	5,704,866	5,704,866
Total unrestricted	(13,958,793)	161,660,721	5,704,866	153,406,794
Temporarily restricted	20,918,333	1,509,254	48,098,362	70,525,949
Permanently restricted	-	-	79,635,914	79,635,914
Total net assets	6,959,540	163,169,975	133,439,142	303,568,657
Total liabilities and net assets	$ 26,037,591	$ 221,726,283	$ 133,439,142	$ 381,203,016

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statement of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets
Year Ended June 30, 2017

Operating revenues, gains (losses), and other support	Operating Fund	New de Young Fund	Endowment Fund	Total
Operating revenues and gains (losses)				
Museum store sales	$ 6,128,407	$ -	$ -	$ 6,128,407
Cost of museum store sales	(3,101,899)	-	-	(3,101,899)
Gross profit on sales	3,026,508	-	-	3,026,508
City appropriation	14,021,024	-	-	14,021,024
Membership dues	10,959,034	-	-	10,959,034
Annual contributions	5,343,966	-	-	5,343,966
Grants and bequests	1,547,068	-	-	1,547,068
Investment income	14,699	-	-	14,699
Endowment distribution	4,311,615	-	(2,734,014)	1,577,601
Admissions and special events	7,360,155	-	-	7,360,155
Facilities rental, net	449,907	-	-	449,907
Conservation services	24,730	-	-	24,730
Other	657,543	41,895	-	699,438
Total operating revenues and gains (losses)	47,716,249	41,895	(2,734,014)	45,024,130
Net assets released from restrictions and reclassification	18,669,624	960,737	(88,558)	19,541,803
Total unrestricted revenues, gains (losses), and other support	66,385,873	1,002,632	(2,822,572)	64,565,933
Operating expenses				
Exhibition program	9,093,062	-	-	9,093,062
Curatorial, conservation, and education programs	15,839,424	-	-	15,839,424
Art acquisitions	3,019,127	-	-	3,019,127
Museum stores	2,882,313	-	-	2,882,313
Membership	3,053,653	-	-	3,053,653
Operations and administration	17,553,007	-	24,431	17,577,438
Development	4,543,632	-	-	4,543,632
Marketing and communications	3,980,930	-	-	3,980,930
Interest and remarketing bond costs	-	1,440,527	-	1,440,527
Amortization of bond issuance costs	-	147,913	-	147,913
Total operating expenses	59,965,148	1,588,440	24,431	61,578,019
Change in unrestricted net assets from operations	6,420,725	(585,808)	(2,847,003)	2,987,914
Other changes				
Investment income	-	968,105	116,100	1,084,205
Realized gains (losses) on investments, net	17,031	(54,642)	156,603	118,992
Unrealized (losses) gains on investments, net	(10,909)	3,577,251	1,020,398	4,586,740
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	-	(5,891,969)
Change in pension liability	2,704,678	-	-	2,704,678
Change in unrestricted net assets	9,131,525	(1,987,063)	(1,553,902)	5,590,560
Unrestricted net (deficit) assets, beginning of year, prior to restatement	(52,074)	163,647,784	7,258,768	170,854,478
		-		
Cumulative effect of change in accounting principle	(23,038,244)	-	-	(23,038,244)
Unrestricted net (deficit) assets, beginning of year, as restated	(23,090,318)	163,647,784	7,258,768	147,816,234
Unrestricted net (deficit) assets, end of year	$ (13,958,793)	$ 161,660,721	$ 5,704,866	$ 153,406,794

The Fine Arts Museums of San Francisco
Combined Statement of Changes in Net Assets

Year Ended June 30, 2017

	Operating Fund	New de Young Fund	Endowment Fund	Total
Unrestricted net (deficit) assets				
Total operating revenues and gains	$ 47,716,249	$ 41,895	$ (2,734,014)	$ 45,024,130
Net assets released from restrictions and reclassification	18,669,624	960,737	(88,558)	19,541,803
Total operating expenses	(59,965,148)	(1,588,440)	(24,431)	(61,578,019)
Total investment income	-	968,105	116,100	1,084,205
Total realized gains (losses) on investments, net	17,031	(54,642)	156,603	118,992
Total unrealized gains (losses) on investments, net	(10,909)	3,577,251	1,020,398	4,586,740
Total amortization of beneficial interest in de Young Museum building	-	(5,891,969)	-	(5,891,969)
Change in pension liability	2,704,678	-	-	2,704,678
Change in unrestricted net assets	9,131,525	(1,987,063)	(1,553,902)	5,590,560
Unrestricted net (deficit) assets, beginning of year, prior to restatement	(52,074)	163,647,784	7,258,768	170,854,478
Cumulative effect of change in accounting principle	(23,038,244)	-	-	(23,038,244)
Unrestricted net (deficit) assets, beginning of year, as restated	(23,090,318)	163,647,784	7,258,768	147,816,234
Unrestricted net (deficit) assets, end of year	(13,958,793)	161,660,721	5,704,866	153,406,794
Temporarily restricted net assets				
Contributions, grants, and bequests	12,018,777	-	50,022	12,068,799
Investment income	102,089	-	1,210,150	1,312,239
Realized gains on investments, net	-	-	1,258,896	1,258,896
Unrealized gains (losses) on investments, net	4,990	(490,000)	12,370,355	11,885,345
Proceeds from sale of art	307,466	-	-	307,466
Net assets released from restrictions and reclassification	(18,669,624)	(960,737)	88,558	(19,541,803)
Total endowment distribution and reclassification	4,319,602	960,757	(6,857,960)	(1,577,601)
Change in temporarily restricted net assets	(1,916,700)	(489,980)	8,120,021	5,713,341
Temporarily restricted net assets, beginning of year	22,835,033	1,999,234	39,978,341	64,812,608
Temporarily restricted net assets, end of the year	20,918,333	1,509,254	48,098,362	70,525,949
Permanently restricted net assets				
Contributions, grants, and bequests	-	-	75,660	75,660
Unrealized losses, net	-	-	(24,671)	(24,671)
Change in permanently restricted net assets	-	-	50,989	50,989
Permanently restricted net assets, beginning of year	-	-	79,584,925	79,584,925
Permanently restricted net assets, end of the year	-	-	79,635,914	79,635,914
Change in total net assets	7,214,825	(2,477,043)	6,617,108	11,354,890
Total net assets, beginning of year, prior to restatement	22,782,959	165,647,018	126,822,034	315,252,011
Cumulative effect of change in accounting principle	(23,038,244)	-	-	(23,038,244)
Total net (deficit) assets, beginning of year, as restated	(255,285)	165,647,018	126,822,034	292,213,767
Total net assets, end of year	$ 6,959,540	$ 163,169,975	$ 133,439,142	$ 303,568,657

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statement of Cash Flows

	Year Ended June 30, 2017
Cash flows used in operating activities	
Change in net assets	$ 11,354,890
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	615,268
Amortization of bond issuance costs	147,913
Change in pension liability	(2,704,678)
Proceeds from sale of art	(307,466)
Art acquisition expense	3,019,127
Amortization of beneficial interest in de Young Museum building	5,891,969
Investment income restricted/designated for capital projects	(968,105)
Change in long-term contribution discount	(57,918)
Change in inventory reserve for obsolescence	158,245
Bond interest and remarketing costs	1,440,527
Net unrealized and realized gains on investments	(17,825,302)
Contributions restricted for art acquisitions	(1,407,574)
Contributions restricted for investment in endowment	(75,660)
Change in beneficial interest in perpetual and other trusts	19,985
Change in pooled income fund	(4,524)
Change in operating assets and liabilities	
Notes, accounts, and other receivables	1,332,946
Contributions receivables	(1,739,491)
Prepaid expenses and other assets	(215,270)
Inventories	(44,138)
Accounts payable and accrued expenses	1,203,905
Deferred revenue	(505,821)
Agency funds	25,585
Net cash used in operating activities	(645,587)
Cash flows from investing activities	
Purchase of investments	(2,927,903)
Sale of investments	9,782,170
Purchase of art	(3,019,127)
Proceeds from sale of art	307,466
Capital expenditures	(1,525,068)
Net cash provided by investing activities	2,617,538
Cash flows from financing activities	
Contributions restricted for investment in endowment	75,660
Contributions restricted/designated for capital projects	200,000
Investment income restricted/designated for capital projects	968,105
Bond interest and remarketing costs	(1,440,527)
Capital lease payments	(34,101)
Contributions restricted for art acquisitions	1,407,574
Net cash provided by financing activities	1,176,711
Net change in cash and cash equivalents	3,148,662
Cash and cash equivalents, beginning of year	21,580,275
Cash and cash equivalents, end of year	$ 24,728,937
Supplemental disclosures of cash flow information	
Cash paid for interest	$ 121,263

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 (Museums). 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, which opened in 2005. The FAMF Board of Trustees ("Board") is self-perpetuating.

The Museums 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. 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. COFAM and FAMF have a rent-free use of the buildings, which much be operated for the benefit of the public.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

- Unrestricted net assets are net assets not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the governing board or otherwise limited by contractual arrangements with outside parties.

- Temporarily restricted net assets 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. Temporarily restricted net assets consist primarily of restricted grants, pledges, and other contributions, as well as unappropriated earnings on donor-restricted endowment funds. At June 30, 2017, the majority of temporarily restricted net assets consisted of unappropriated earnings of donor-restricted endowment funds for art acquisition and exhibition support, contributions for education programs and curatorial projects, and remaining pledges for the new de Young project.

- Permanently restricted net assets are net assets subject to donor-imposed restrictions that they be maintained permanently by the Museums. At June 30, 2017, permanently restricted net assets consist primarily of endowment funds the earnings on which are used for art acquisition and exhibition support.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by the donor or by law. Expirations of temporary restrictions on net assets (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.

Description of funds – The Endowment Fund includes permanently restricted contributions, unrestricted and temporarily restricted contributions, and the unappropriated investment earnings associated with these funds. The new de Young Fund includes transactions related to the new de Young Museum building, including the long-term rent-free use of the building, bonds payable for the project's financing, and investments designated for retirement of the bonds. The operating fund captures all other activity.

Use of estimates – The preparation of 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. At June 30, 2017, cash and cash equivalents included $1,129,289 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.

Fair value measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2, and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

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.

Notes, accounts, and other receivables – Notes, accounts, and other receivables are shown net of an allowance for doubtful accounts of $0 at June 30, 2017. 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 at a level considered adequate to cover anticipated credit losses on outstanding accounts receivable. Bad debt recoveries are recorded as income when received.

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 approximated $158,000 at June 30, 2017.

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 an offering issued by COFAM and FAMF as co-borrowers. 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 8, 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.

Pooled income funds – Pooled income funds represent gifts for which the Organization is the remainderman and the trustee. Donors retain a lifetime interest in gift income. Pooled income funds consist of mutual funds.

Pooled income fund investments are carried at fair value based upon quoted market prices and are held with one commercial institution. A discount, which reduces fund investments to present value based upon the life expectancy of each fund participant, is included in deferred revenue in the combined statement of financial position. Accretion of the discount is recorded as an increase in temporarily restricted net assets. Pooled income funds are reported net of current unpaid beneficiary income.

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 permanently restricted net assets.

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

Bonds payable – The carrying amount of the Organization's debt instruments for the new de Young project approximates fair value as the bonds bear interest at auction rates. Interest expense totaled $714,911 for the year ended June 30, 2017, and is included in interest and remarketing bond costs in the combined statement of unrestricted revenues, expenses, and other changes in unrestricted net assets.

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, which consist primarily of cash and investments, remain the property of the trustor organizations, which retain title to the assets. Accordingly, such assets are reflected as assets and corresponding liabilities in the combined financial statements.

Museum store sales – 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. Total museum store sales do not include sales tax as the Organization accounts for these transactions as a pass through conduit for collecting and remitting sales taxes.

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 that meets the criteria for recognition and is included in the accompanying combined financial statements as City appropriation.

Membership dues – Membership dues are recorded in the period received.

Contributions – 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. 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. Conditional promises to give are recognized in the period in which the condition is substantially met. 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, no contribution receivable allowance has been established as of June 30, 2017. 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. Contributions are derived primarily from donors in Northern California.

Admissions and special events – Admissions and special events revenue are recognized when earned.

Bond issuance costs – The costs related to bonds are amortized on a straight-line basis over the life of the bonds, which approximates the effective interest method. Amortization expense recognized in the fiscal year ended June 30, 2017, amounted to $147,913 and is included in amortization of bond issuance costs expense in the combined statement of unrestricted revenues, expenses, and other changes in unrestricted net assets. Amortization expense for each of the next five years is expected to be $147,913.

Functional allocation of expenses – The costs of providing program and other activities have been summarized on a functional basis in Note 15. Certain costs have been allocated among the programs and supporting services that are benefited based on periodic review of personnel time and management estimates. Total program expenses include the exhibitions program; curatorial, conservation, and education programs; art acquisitions; membership; the new de Young project; and museum stores, including the related cost of sales.

Advertising costs – Advertising costs are expensed in the period incurred. Advertising expense for the year ended June 30, 2017, was $2,151,353.

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 Organization's 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 and are not recorded in the Organization's combined financial statements. Art that is held by FAMF is generally subject to donor restriction. For the year ended June 30, 2017, 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 Organization's Director, the FAMF Board Acquisitions Committee, and the 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 unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

During the year ended June 30, 2017, the Organization changed its accounting policy relating to art collections (Note 17).

Fair value of financial instruments – The fair value of cash, receivables, accounts payable, and accrued expenses at June 30, 2017, approximates the carrying amount because of the relatively short-term maturities of these financial instruments. The carrying amount of bonds payable approximates fair value.

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, 2017, 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 of 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07 ("ASU 2015-07"), *Fair Value Measurement: Disclosures for Investment in Certain Entities That Calculate Net Asset Value (NAV) per Shar*e. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Organization adopted ASU 2015-07 as of July 1, 2016.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The Organization adopted ASU 2014-15 as of June 30, 2017. The adoption of ASU 2014-15 did not have a material impact on the Museums' combined financial statements.

In February 2016, the FASB issued No. ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02), 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. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption is effective for the Museums' fiscal year ending June 30, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the combined financial statements.

In August 2016, the FASB issued No. ASU 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities*, which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. ASU 2016-14 replaces the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows and adds several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. The adoption is effective for the Museums for the fiscal year ending June 30, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-14 on the combined financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the combined financial statement date but before the combined financial statements are 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 statement of financial position, including the estimates inherent in the process of preparing the combined financial statements.

The Organization has evaluated subsequent events through December 21, 2017, which is the date the combined financial statements were available to be issued.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable – At June 30, 2017, the outstanding contributions receivable for the benefit of Mueseums and the new de Young project are due as follows:

Less than one year	$ 3,752,675
One to five years	300,000
Thereafter	97,391
Less unamortized discount ranging from 1.94% to 5.98%	(56,325)
Contributions receivable, net	$ 4,093,741

NOTE 4 – 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 since 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 8, 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 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.

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 Auction Rate Securities borrowed during the new de Young Museum project. The total bonds payable balance outstanding at June 30, 2017, was $60,775,000.

The Series 2002A and 2002B bonds are subject to optional, mandatory, and extraordinary redemption. Each bond series is subject to mandatory redemption by lot, from revenues, on each June 1 beginning in 2028 and continuing through 2032. The interest rate on both the Series 2002A and 2002B bonds at June 30, 2017, was 1.523%.

The obligation of COFAM and FAMF ("Co-Obligors") to make payments under the loan agreement is an uncollateralized, general obligation.

Restricted assets may not be used for loan payments. Restricted assets are defined in the loan agreement as any assets which have been restricted as to use (other than for the new de Young project) by a grantor or donor. For the purposes of the loan agreement, restricted assets do not include pledges, gifts, or other assets dedicated by the donor to pay the costs of constructing or financing the new de Young project. Restricted assets include the art collection and endowment.

Under the terms of the loan agreement, the Co-Obligors must maintain their status as 501(c)(3) organizations, maintain certain minimum insurance coverages and provide annual certificates evidencing such coverage, and maintain minimum balances on hand in certain funds, as specified in the loan agreement. Under the minimum balance covenant, the Treasurer shall, within 180 days of each fiscal year end, certify the amounts contained in the minimum balance funds. Due to the pay down on the bonds in 2011, the minimum balance requirement was revised. At June 30, 2017, the minimum balance requirement was $39,826,752. At June 30, 2017, $82,031,934 in aggregate was held in the minimum balance funds, all within the new de Young Fund, as follows:

Cash and cash equivalents	$ 8,692,033
Short-term investments	63,409,540
Long-term investments	10,402,213
Interfund payables	(471,852)
	$ 82,031,934

In compliance with FASB ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, for year ended June 30, 2017, $2,218,692 of unamortized debt issuance costs were applied to the $60,775,000 bonds payable balance resulting in a balance, of $58,556,308.

NOTE 5 – 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 statement 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 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value measurements for the fiscal year ended June 30, 2017, are as follows:

	Level 1	Level 2	Level 3	Investments held at NAV	Total
Equity securities and funds:					
Domestic	$ 33,676,603	$ 27,528,853	$ -	$ -	$ 61,205,456
International	-	27,020,526	-	-	27,020,526
Fixed Income:					
Corporate obligation	33,794,735	-	-	-	33,794,735
Government and agency obligation	9,455,583	31,725,450	-	-	41,181,033
Alternative Investments:					
Venture capital funds	-	-	-	1,723,363	1,723,363
Hedge funds					-
Long/short equity	-	-	-	9,375,094	9,375,094
Multi-strategy hedge funds	-	-	-	1,552,290	1,552,290
Other	-	-	-	4,192,607	4,192,607
Commingled funds					
Global fixed income	-	-	-	19,293,525	19,293,525
International equity	-	-	-	4,707,600	4,707,600
Beneficial interest in remainder trusts	-	-	2,427,339	-	2,427,339
Property	-	-	685,000	-	685,000
Total instruments measured at fair value	$ 76,926,921	$ 86,274,829	$ 3,112,339	$ 40,844,479	$ 207,158,568

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 $1,409,582 at June 30, 2017, 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 venture funds. Alternative investments may be structured as limited partnerships, limited liability companies, commingled trusts, or offshore investment funds. 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 measurement for assets and liabilities under the supervision of the Chief Financial Officer. These 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 comparables, 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 statement of financial position for the year ended June 30, 2017:

Beginning balance	$ 1,175,000
Unrealized loss	(490,000)
Ending balance	$ 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 statement of financial position for the year ended June 30, 2017.

Beginning balance	$ 2,447,324
Change in value due to change in actuarial life expectancy and fair value of underlying trust assets	(19,985)
Ending balance	$ 2,427,339

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
Venture Funds	$ 1,723,363	4	10 to 15 years	$ 586,112	From 5 years up to 15 years	N/A	Prohibited until liquidation date
Long/short hedged equity	$ 9,375,094	1	N/A	No unfunded commitment	N/A	Annual	A shareholder may redeem Series A2 shares annually on each anniversary of the expiration date of the Initial Lock-up Period; provided Series A2 shares may not be redeemed until the first calendar quarter-end occurring more than two years after the date such shares were purchased (the "Initial Lock-up Period")
Multi-strategy hedge funds	$ 16,243	1	N/A	No unfunded commitment	N/A	Currently being liquidated by manager	Currently being liquidated by manager
Multi-strategy hedge funds	$ 1,536,047	2	N/A	No unfunded commitment	N/A	Quarterly and Annual redemptions	45 to 70 days' notice period
Hedged equity	$ 4,192,607	3	N/A	No unfunded commitment	N/A	Quarterly redemptions	45 and 90 Days notice
Global fixed income	$ 19,293,525	2	N/A	No unfunded commitment	N/A	Monthly redemptions	10 business days written notice
International equity	$ 4,707,600	1	N/A	No unfunded commitment	N/A	Monthly redemptions	10 business days written 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 investments in 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.

The following schedule summarizes the Organization's total investment return:

	Operating Fund	New de Young Fund	Endowment Fund	Total
Investment income	$ 102,089	$ 968,105	$ 1,326,250	$ 2,396,444
Realized gains (losses), net	17,031	(54,642)	1,415,499	1,377,888
Unrealized (losses) gains , net	(5,919)	3,087,251	13,366,082	16,447,414
Total net investment return	$ 113,201	$ 4,000,714	$ 16,107,831	$ 20,221,746

NOTE 6 – FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures, and equipment is classified in the operating fund and under the following functional areas at June 30, 2017:

Exhibitions	$ 1,777,125
Curatorial, conservation, and education	1,437,893
Administration	7,087,610
Development	101,863
Construction in progress	739,338
	11,143,829
Less: accumulated depreciation and amortization	(8,641,306)
	$ 2,502,523

Depreciation charged to the operating fund for the fiscal year ending June 30, 2017 was $615,268.

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS

	2017
	Fair Value of Trust
Beneficial interest in perpetual trusts	$ 2,427,339

NOTE 8 – BENEFICIAL INTEREST IN DE YOUNG MUSEUM BUILDING

As discussed in Note 4, COFAM was responsible for project management and fundraising for the $206 million new de Young Museum building project, and FAMF and COFAM are 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, net. The project cost of $206 million is amortized on a straight-line basis over 35 years. Amortization expense totaled $5,891,969 for the year ended June 30, 2017.

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 $137,544,444 at June 30, 2017.

NOTE 9 – 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, 2017, totaled $1,082,910. This amount is included in the notes, accounts, and other receivables balance in the combined statement of financial position.

NOTE 10 – ENDOWMENT

The Organization's endowment consists of 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by CUPMIFA. 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 Organization to retain as a fund of perpetual duration. Deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Endowment funds with such deficiencies totaled approximately $15,240 as of June 30, 2017.

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 5.15% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy their 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 5.15% 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 their 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 5.15% distribution for the year ended June 30, 2017, 5% was allocated to provide support for art acquisitions and COFAM's operations, and 0.15% was allocated to fund FAMF's operating expenses, which do not include investment advisory fees of $513,817 for 2017.

Changes in endowment net assets for the fiscal year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,258,751	$ 39,978,342	$ 79,584,925	$ 126,822,018
Investment return				
Investment income	116,100	1,210,150	-	1,326,250
Net appreciation (realized and unrealized)	1,177,001	13,629,251	(24,671)	14,781,581
Total investment return	1,293,101	14,839,401	(24,671)	16,107,831
Contributions	-	-	75,660	75,660
Transfer	(88,541)	(1,145,197)	-	(1,233,738)
Distribution of endowment assets for expenditure	(2,734,014)	(5,574,184)	-	(8,308,198)
Expenditures	(24,431)	-	-	(24,431)
Endowment net assets, end of year	$ 5,704,866	$ 48,098,362	$ 79,635,914	$ 133,439,142

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 48,098,362	$ 79,635,914	$ 127,734,276
Board-designated endowment funds	5,704,866	-	-	5,704,866
Total funds	$ 5,704,866	$ 48,098,362	$ 79,635,914	$ 133,439,142

NOTE 11 – RELATED-PARTY TRANSACTIONS

For the year ended June 30, 2017, the City's in-kind appropriation for the Organization amounted to $14,021,024. Art purchased by the Organization on behalf of the City totaled $760,100 for the year ended June 30, 2017.

Contributions from trustees were approximately $4,047,000 during the year ended June 30, 2017. Pledges receivable, net of discounts, due from trustees totaled $239,500 as of June 30, 2017.

Included in notes, accounts, and other receivables at June 30, 2017 is a noninterest-bearing employee relocation loan of $150,000, which is collateralized by a deed of trust.

NOTE 12 – LEASED PROPERTY

The Organization leases warehouse space, office space, and certain office equipment under operating and capital leases. Rent expense on all leases of $527,815 was incurred for the year ended June 30, 2017.

The 35-year lease for the new de Young Museum building is rent free (see Note 4).

The following is a schedule of future minimum lease payments for operating leases with remaining terms in excess of one year at June 30, 2017:

	Operating Leases
2018	$ 482,937
2019	479,104
2020	503,584
2021	518,284
2022	5,655
Total minimum lease payments	$ 1,989,564

NOTE 13 – DEFINED BENEFIT PLAN

COFAM has a defined benefit pension 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. 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 related to COFAM and FAMF employees was $579,343 for the fiscal year ended June 30, 2017. The plan 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, 2017, of $2,704,678, is reported in the operating fund after the change in unrestricted net assets 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 year ended June 30, 2017:

Change in benefit obligation	
July 1 projected benefit obligation	$ 36,225,531
Service cost	518,293
Interest cost	1,282,231
Actuarial (gain)	(709,045)
Annuity purchase	(69,959)
Benefit payments	(1,428,637)
June 30 projected benefit obligation	35,818,414
Change in plan assets	
July 1 fair value of plan assets	23,884,456
Actuarial return on plan assets	2,638,748
Expenses	(148,003)
Annuity purchase	(64,103)
Benefit payments	(1,428,637)
June 30 fair value of plan assets	24,882,461
Funded status reconciliation at June 30	$ (10,935,953)
Amounts recognized in the statement of financial position	
Noncurrent liabilities	$ (10,935,953)
Net amount recognized	(10,935,953)
Amounts recognized in net assets	
Net losses	$ 10,390,074
Net amount recognized	$ 10,390,074
Accumulated benefit obligation at end of year	$ 33,559,246

COFAM used a June 30, 2017 measurement date for its pension plan.

The net periodic pension cost for pension benefits for the year ending June 30, 2017, includes the following components:

Service cost	$ 518,293
Interest cost	1,282,231
Expected return on plan assets	(1,613,657)
Amortization of net loss	1,112,689
Net periodic benefit cost	$ 1,299,556

Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2017:

Discount rate	3.55%
Rate of compensation	2.50%
Expected return on plan assets	7.00%

The discount rate used to determine the projected benefit obligation was 3.55% as of June 30, 2017.

Other changes recognized:

Net loss	$	(1,591,989)
Amortization of net loss		(1,112,689)
Total recognized	$	(2,704,678)
Total recognized in net periodic benefit cost and change in net assets	$	(1,405,122)

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 50% equity funds, 40% debt securities, and 10% 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, 2017, by asset category are as follows:

Equity securities	64%
Debt securities	36%
	100%

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

2018	$	1,727,000
2019	$	1,803,000
2020	$	1,799,000
2021	$	1,865,000
2022	$	1,917,000
2023-2027	$	10,368,000

Contributions – The Organization expects to contribute $1,197,000 to its pension plan in fiscal 2018.

NOTE 14 – 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.

The defined contribution plan covers all regular full-time, part-time, and fixed-term employees working at least 1,000 hours per year. Prior to January 1, 2016, the Organization's matching contribution was made on December 31 (the end of the plan year) and since then 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 contribution. The cost recognized by the Organization for the 401(k) plan contributions and administration in 2017 was $346,998.

NOTE 15 – FUNCTIONAL EXPENSES

Program expenses amounted to $39,456,949 for the year ended June 30, 2017. Operations and administrative expenses amounted to $17,577,438 for the year ended June 30, 2017. Development expenses amounted to $4,543,632 for the year ended June 30, 2017.

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 financial position.

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2017, the Organization decided to expense art collections held by FAMF in accordance with FASB ASC 958-360. The Organization historically capitalized art collections held by FAMF. as either method is acceptable by FASB ASC 958-360. The Organization determined expensing art collections is the preferable method in accordance with industry norms and its accreditation body's recommendation. The change in accounting principle is reported through retrospective application. The effects of the change in accounting principle on art collections are presented in the following table:

	Operating Fund	New de Young Fund Net Assets	Endowment Fund	Total Net Assets
Total net assets, beginning of year, as previously reported	$ 22,782,959	$ 165,647,018	$ 126,822,034	$ 315,252,011
Cumulative effect of change in accounting principle	(23,038,244)	-	-	(23,038,244)
Total net assets, beginning of year as restated	$ (255,285)	$ 165,647,018	$ 126,822,034	$ 292,213,767