



*Report of Independent Auditors and
Combined Financial Statements*

The Fine Arts Museums of San Francisco

June 30, 2020 and 2019



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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, 2020 and 2019, and the related combined statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2020 and 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.

Moss Adams LLP

San Francisco, California
December 10, 2020

Combined Financial Statements

The Fine Arts Museums of San Francisco
Combined Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 24,374,789	\$ 25,935,121
Short-term investments	11,987,124	14,501,959
Notes, accounts, and other receivables, net	2,520,853	3,051,576
Contributions receivable, net	3,736,780	6,133,245
Prepaid expenses and other assets	1,096,090	347,125
Inventories, net	1,335,345	989,679
Furniture, fixtures, and equipment, net	2,363,543	2,168,017
Long-term investments	150,432,059	150,637,505
Beneficial interest in perpetual trusts	2,307,380	2,370,046
Beneficial interest in de Young Museum building, net	119,868,538	125,760,507
	<u>320,022,501</u>	<u>331,894,780</u>
Total assets	<u>\$ 320,022,501</u>	<u>\$ 331,894,780</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,666,184	\$ 1,965,867
Accrued expenses	2,785,665	2,652,552
Deferred revenue	2,459,333	1,052,789
Loan payable	4,150,800	-
Agency funds	1,347,134	1,233,176
Accrued pension liability	12,471,119	8,630,459
	<u>24,880,235</u>	<u>15,534,843</u>
Total liabilities	<u>24,880,235</u>	<u>15,534,843</u>
Net assets (deficit)		
Without donor restrictions		
Operating	(9,411,796)	3,202,054
Other	157,602,244	162,179,524
	<u>148,190,448</u>	<u>165,381,578</u>
Total without donor restrictions	<u>148,190,448</u>	<u>165,381,578</u>
With donor restrictions	<u>146,951,818</u>	<u>150,978,359</u>
Total net assets	<u>295,142,266</u>	<u>316,359,937</u>
Total liabilities and net assets	<u>\$ 320,022,501</u>	<u>\$ 331,894,780</u>

The Fine Arts Museums of San Francisco
Combined Statements of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	<u>Total 2020</u>
	<u>Operating</u>	<u>Other</u>	<u>Total</u>		
Operating revenues and gains					
Admissions	\$ 2,335,875	\$ -	\$ 2,335,875	\$ -	\$ 2,335,875
Membership dues	8,322,446	-	8,322,446	-	8,322,446
Museum store sales, net of cost of goods	1,616,340	-	1,616,340	-	1,616,340
City appropriation	16,726,272	-	16,726,272	-	16,726,272
Contributions, grants, and bequests	7,098,546	506,243	7,604,789	11,786,586	19,391,375
Special events	559,066	-	559,066	-	559,066
Investment income, net	216,320	-	216,320	-	216,320
Proceeds from sale of art	-	-	-	290,731	290,731
Endowment distribution	4,288,852	(13,800)	4,275,052	(254,107)	4,020,945
Other	1,553,180	14,380	1,567,560	130	1,567,690
Total operating revenues and gains	42,716,897	506,823	43,223,720	11,823,340	55,047,060
Net assets released from restrictions	11,827,442	(332,547)	11,494,895	(11,494,895)	-
Total revenues	54,544,339	174,276	54,718,615	328,445	55,047,060
Operating expenses					
Program services					
Curatorial and collections	27,094,163	-	27,094,163	-	27,094,163
Exhibitions	16,107,788	-	16,107,788	-	16,107,788
Education and public programs	3,236,422	-	3,236,422	-	3,236,422
Membership activities	2,305,131	-	2,305,131	-	2,305,131
Museum stores	3,085,272	-	3,085,272	-	3,085,272
Total program services	51,828,776	-	51,828,776	-	51,828,776
Support services					
General and administrative	7,325,820	64,881	7,390,701	-	7,390,701
Development	3,395,018	-	3,395,018	-	3,395,018
Total support services	10,720,838	64,881	10,785,719	-	10,785,719
Total operating expenses	62,549,614	64,881	62,614,495	-	62,614,495
Change in net assets from operations	(8,005,275)	109,395	(7,895,880)	328,445	(7,567,435)
Other changes					
Investment return in excess of (less than) operating endowment distribution	9,945	1,205,294	1,215,239	(4,354,986)	(3,139,747)
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	(5,891,969)	-	(5,891,969)
Change in pension liability	(4,618,520)	-	(4,618,520)	-	(4,618,520)
Change in net assets	(12,613,850)	(4,577,280)	(17,191,130)	(4,026,541)	(21,217,671)
Net assets, beginning of year	3,202,054	162,179,524	165,381,578	150,978,359	316,359,937
Net (deficit) assets, end of year	\$ (9,411,796)	\$ 157,602,244	\$ 148,190,448	\$ 146,951,818	\$ 295,142,266

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Activities (Continued)
Year Ended June 30, 2019

	Without Donor Restrictions			With Donor Restrictions	Total 2019
	Operating	Other	Total		
Operating revenues and gains					
Admissions	\$ 9,024,439	\$ -	\$ 9,024,439	\$ -	\$ 9,024,439
Membership dues	12,834,482	-	12,834,482	-	12,834,482
Museum store sales, net of cost of goods	3,588,673	-	3,588,673	-	3,588,673
City appropriation	16,044,378	-	16,044,378	-	16,044,378
Contributions, grants, and bequests	16,939,212	6,900,000	23,839,212	9,092,899	32,932,111
Special events	577,061	-	577,061	-	577,061
Investment income, net	311,800	-	311,800	-	311,800
Proceeds from sale of art	-	-	-	167,449	167,449
Endowment distribution	3,627,626	(8,628)	3,618,998	(246,561)	3,372,437
Other	2,443,009	-	2,443,009	1,913	2,444,922
Total operating revenues and gains	65,390,680	6,891,372	72,282,052	9,015,700	81,297,752
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
Operating expenses					
Program services					
Curatorial and collections	27,592,475	-	27,592,475	-	27,592,475
Exhibitions	18,074,045	-	18,074,045	-	18,074,045
Education and public programs	3,967,229	-	3,967,229	-	3,967,229
Membership activities	2,713,781	-	2,713,781	-	2,713,781
Museum stores	2,977,770	-	2,977,770	-	2,977,770
Total program services	55,325,300	-	55,325,300	-	55,325,300
Support services					
General and administrative	8,167,193	67,694	8,234,887	-	8,234,887
Development	3,534,520	-	3,534,520	-	3,534,520
Total support services	11,701,713	67,694	11,769,407	-	11,769,407
Total operating expenses	67,027,013	67,694	67,094,707	-	67,094,707
Change in net assets from operations	12,967,361	6,712,317	19,679,678	(5,476,633)	14,203,045
Other changes					
Investment return in excess of (less than) operating endowment distribution	795	1,333,883	1,334,678	1,646,665	2,981,343
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	(5,891,969)	-	(5,891,969)
Change in pension liability	(2,877,055)	-	(2,877,055)	-	(2,877,055)
Change in net assets	10,091,101	2,154,231	12,245,332	(3,829,968)	8,415,364
Net (deficit) assets, beginning of year	(6,889,047)	160,025,293	153,136,246	154,808,327	307,944,573
Net assets, end of year	\$ 3,202,054	\$ 162,179,524	\$ 165,381,578	\$ 150,978,359	\$ 316,359,937

See accompanying notes.

The Fine Arts Museums Of San Francisco
Combined Statements of Functional Expenses
Year Ended June 30, 2020

	Program Services					Supporting Services					Total 2020
	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	
Personnel costs											
Salaries and wages	\$ 11,839,007	\$ 7,480,201	\$ 1,806,081	\$ 810,563	\$ 1,738,528	\$ 23,674,380	\$ 3,838,012	\$ -	\$ 1,731,910	\$ 5,569,922	\$ 29,244,302
Payroll taxes and benefits	5,034,206	2,079,509	593,301	245,095	564,369	8,516,480	1,112,024	-	327,542	1,439,566	9,956,046
Total personnel costs	16,873,213	9,559,710	2,399,382	1,055,658	2,302,897	32,190,860	4,950,036	-	2,059,452	7,009,488	39,200,348
Non-personnel costs											
Occupancy	3,045,136	824,096	232,477	1,926	45,065	4,148,700	120,476	-	69,168	189,644	4,338,344
Art acquisitions	2,956,723	-	-	-	-	2,956,723	-	-	-	-	2,956,723
Supplies	202,609	400,021	44,695	1,623	30,429	679,377	25,498	-	4,468	29,966	709,343
Equipment rental and maintenance	433,694	396,690	57,838	32,621	177,396	1,098,239	201,653	-	103,629	305,282	1,403,521
Postage and shipping	117,664	1,609,254	5,980	471,020	72,447	2,276,365	6,962	-	22,506	29,468	2,305,833
Travel	111,782	14,722	29,300	739	9,179	165,722	64,042	-	22,001	86,043	251,765
Conferences, meetings, and events	39,161	55,221	48,072	677	2,208	145,339	59,093	-	534,356	593,449	738,788
Advertising and promotion	4,050	864,568	300	27,154	632	896,704	150	-	3,507	3,657	900,361
Printing	372,035	274,667	35,345	106,534	77,556	866,137	14,220	-	139,268	153,488	1,019,625
Professional services	873,271	1,384,073	300,456	501,923	132,679	3,192,402	1,098,159	64,881	351,995	1,515,035	4,707,437
Professional development	69,263	28,706	11,697	2,220	5,240	117,126	60,354	-	17,801	78,155	195,281
Participation fees	162	510,707	284	-	-	511,153	-	-	-	-	511,153
Merchant fees and bank charges	6,989	100,327	4,426	99,034	85,762	296,538	35,698	-	45,516	81,214	377,752
Insurance	1,327,899	7,864	-	-	-	1,335,763	336,864	-	-	336,864	1,672,627
Interest expense	-	-	-	-	-	-	8,982	-	-	8,982	8,982
Depreciation and amortization expense	562,198	62,466	41,644	-	6,941	673,249	20,822	-	-	20,822	694,071
Miscellaneous	98,314	14,696	24,526	4,002	136,841	278,379	322,811	-	21,351	344,162	622,541
Total non-personnel costs	10,220,950	6,548,078	837,040	1,249,473	782,375	19,637,916	2,375,784	64,881	1,335,566	3,776,231	23,414,147
Total	<u>\$ 27,094,163</u>	<u>\$ 16,107,788</u>	<u>\$ 3,236,422</u>	<u>\$ 2,305,131</u>	<u>\$ 3,085,272</u>	<u>\$ 51,828,776</u>	<u>\$ 7,325,820</u>	<u>\$ 64,881</u>	<u>\$ 3,395,018</u>	<u>\$ 10,785,719</u>	<u>\$ 62,614,495</u>

See accompanying notes.

The Fine Arts Museums Of San Francisco
Combined Statements of Functional Expenses (Continued)
Year Ended June 30, 2019

	Program Services					Supporting Services					Total 2019
	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	
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
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
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
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
Art acquisitions	4,744,011	-	-	-	-	4,744,011	-	-	-	-	4,744,011
Supplies	214,748	598,340	63,537	2,706	52,507	931,838	42,444	-	13,759	56,203	988,041
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
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
Travel	97,428	224,814	59,828	2,641	13,513	398,224	79,309	-	33,052	112,361	510,585
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
Advertising and promotion	19,733	1,309,758	1,462	45,124	1,108	1,377,185	731	-	530	1,261	1,378,446
Printing	416,206	214,361	91,556	161,551	45,874	929,548	78,928	-	168,546	247,474	1,177,022
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
Professional development	65,863	73,770	6,472	7,550	7,200	160,855	88,980	-	13,482	102,462	263,317
Participation fees	-	704,631	-	-	-	704,631	-	-	-	-	704,631
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
Insurance	1,266,109	93,995	-	-	-	1,360,104	295,097	11,599	-	306,696	1,666,800
Interest expense	-	-	-	-	-	-	46,500	-	-	46,500	46,500
Depreciation and amortization expense	608,846	67,650	45,100	-	7,517	729,113	22,550	-	-	22,550	751,663
Miscellaneous	213,161	341,603	35,112	34,374	66,547	690,797	393,079	5,910	169,489	568,478	1,259,275
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
Total	<u>\$ 27,592,475</u>	<u>\$ 18,074,045</u>	<u>\$ 3,967,229</u>	<u>\$ 2,713,781</u>	<u>\$ 2,977,770</u>	<u>\$ 55,325,300</u>	<u>\$ 8,167,193</u>	<u>\$ 67,694</u>	<u>\$ 3,534,520</u>	<u>\$ 11,769,407</u>	<u>\$ 67,094,707</u>

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows used in operating activities		
Change in net assets	\$ (21,217,671)	\$ 8,415,364
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	694,071	751,663
Change in pension liability	4,618,520	2,877,055
Proceeds from sale of art	(290,731)	(167,449)
Art acquisition expense	2,956,723	4,744,011
Amortization of beneficial interest in de Young Museum building	5,891,969	5,891,969
Loss on retirement of assets	-	622,156
Change in allowance for doubtful accounts	(106,813)	139,071
Change in long-term contribution discount	(48,868)	(77,683)
Change in inventory reserve for obsolescence	34,157	(8,847)
Net unrealized and realized losses (gains) on investments	2,288,325	(2,847,785)
Contributions restricted for art acquisitions	(261,603)	(850,255)
Contributions restricted for investment in endowment	(506,243)	(6,900,000)
Change in beneficial interest in perpetual and other trusts	62,666	55,860
Change in operating assets and liabilities		
Notes, accounts, and other receivables	598,006	(71,325)
Contributions receivables	2,484,863	2,946,821
Prepaid expenses and other assets	(748,965)	137,175
Inventories	(379,823)	134,293
Accounts payable and accrued expenses	(944,430)	(2,472,378)
Deferred revenue	1,406,544	(213,938)
Agency funds	113,958	129,680
Net cash (used in) provided by operating activities	<u>(3,355,345)</u>	<u>13,235,458</u>
Cash flows from investing activities		
Purchase of investments	(21,889,974)	(38,512,555)
Sale of investments	22,321,930	27,329,007
Purchase of art	(2,956,723)	(4,744,011)
Proceeds from sale of art	290,731	167,449
Capital expenditures	<u>(889,597)</u>	<u>(565,298)</u>
Net cash used in investing activities	<u>(3,123,633)</u>	<u>(16,325,408)</u>
Cash flows from financing activities		
Contributions restricted for investment in endowment	506,243	6,900,000
Proceeds from loan payable	4,150,800	-
Capital lease payments	-	(12,235)
Contributions restricted for art acquisitions	<u>261,603</u>	<u>850,255</u>
Net cash provided by financing activities	<u>4,918,646</u>	<u>7,738,020</u>
Net change in cash and cash equivalents	(1,560,332)	4,648,070
Cash and cash equivalents, beginning of year	<u>25,935,121</u>	<u>21,287,051</u>
Cash and cash equivalents, end of year	<u>\$ 24,374,789</u>	<u>\$ 25,935,121</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 8,982	\$ 46,500

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statements

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.

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:

- 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 Fine Arts Museums Foundation (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, 2020 and 2019, are as follows:

	2020	2019
New de Young Fund	\$ 146,679,862	\$ 151,438,254
Board-designated funds	10,922,382	10,741,270
Total Other Fund	\$ 157,602,244	\$ 162,179,524

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

- 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, 2020 and 2019, 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.

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, and depreciation and amortization. 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. Cash and cash equivalents included \$1,181,146 and \$1,101,028 at June 30, 2020 and 2019, 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.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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 \$32,258 and \$99,541 at June 30, 2020 and 2019, 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 \$0 and \$39,530 at June 30, 2020 and 2019, 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 \$138,634 and \$104,477 at June 30, 2020 and 2019, 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 9, the Organization has recorded the project cost of the new de Young Museum building in the combined financial statements as beneficial interest.

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 of the assets are as follows:

Furniture and fixtures	5-10 years
Computer equipment and software	3-5 years
Other equipment	2-10 years
Building improvements	10-20 years

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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, 2020 and 2019, 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, special event revenue 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.

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, 2020 and 2019, was \$1,491,788 and \$3,283,590, respectively.

Contributions – For the year ended June 30 2020, the Organization adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Management has undertaken a review of all contracts to ensure proper implementation. The adoption did not have a significant effect on the consolidated financial statements.

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.

The Fine Arts Museums of San Francisco Notes to Combined Financial Statement

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 defined as donor's promises to give with stipulation that represents a barrier that must be overcome before the donee is entitled to the assets promised or transferred and a right of return to the donor of assets promised or transferred. Conditional contributions are recognized in the combined financial statements when the conditions on which they depend are met. There were no conditional contributions for the years ended June 30, 2020 and 2019.

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 footage. 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.

Advertising costs – Advertising costs are expensed in the period incurred. Advertising expense for the years ended June 30, 2020 and 2019, were \$908,480 and \$1,387,520, 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.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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, 2020 and 2019, 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/loss 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, 2020 and 2019, 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, 2020 and 2019, 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.

Net periodic pension and other postretirement cost – In previous years, the Organization reported the net periodic pension and other postretirement cost as part of the change in pension liability on the combined statement of activities. As a result of adopting the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2017-07, the Organization reports the nonservice cost components of pension and other postretirement benefit costs in the line change in pension liability on the combined statement of activities. The service cost component of pension and other postretirement benefit costs, totaling \$112,140 for the year ended June 30, 2020, is included in payroll taxes and benefits on the combined statement of functional expenses. The application of the adoption of ASU No. 2017-07 for the year ended June 30, 2019, was deemed insignificant and not applied retrospectively.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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. The effective date of ASU No. 2014-09 was deferred by ASU No. 2020-05, *Revenue from Contracts with Customer (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The amendments in this update are effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities 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. The effective date of ASU No. 2016-02 was deferred by ASU No. 2020-05, *Revenue from Contracts with Customer (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The amendments in this update are effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the combined financial statements.

In March 2019, the FASB issued ASU No. 2019-03, *Updating the Definition of Collections*. ASU No. 2019-03 modifies 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 combined 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 10, 2020, which is the date the combined financial statements were available to be issued.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization’s financial assets as of June 30, 2020 and 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, 2020 and 2019:

Financial assets	2020	2019
Cash and cash equivalents	\$ 24,374,789	\$ 25,935,121
Short-term investments	11,987,124	14,501,959
Notes, accounts, and other receivables, net	2,520,853	3,051,576
Contributions receivable, net	3,736,780	6,133,245
Long-term investments	150,432,059	150,637,505
Beneficial interest in perpetual trusts	<u>2,307,380</u>	<u>2,370,046</u>
Financial assets, end of year	195,358,985	202,629,452
Less those unavailable for non-program related general expenditure within one year, due to:		
Agency funds	1,347,134	1,233,176
Funds held for operating purposes greater than one year	2,474,292	2,043,254
Funds held for art acquisitions	8,177,333	7,323,226
Pledges, grants, and other receivables collectible beyond one year	2,393,429	3,914,114
Beneficial interest in perpetual trusts	2,307,380	2,370,046
Board-designated endowment	10,922,382	10,741,270
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	<u>116,190,575</u>	<u>123,853,435</u>
Financial assets available to meet cash needs for related general expenditures within one year	<u>\$ 51,546,460</u>	<u>\$ 51,150,931</u>

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.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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 \$635,788 and \$1,190,708 at June 30, 2020 and 2019, 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. Level 3 property carried at fair value on the combined statements of financial position for the years ended June 30, 2020 and 2019 was \$685,000 for both years.

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 Fine Arts Museums of San Francisco Notes to Combined Financial Statement

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, 2020 and 2019:

	2020	2019
Beginning balance	\$ 2,370,046	\$ 2,425,906
Change in value due to change in actuarial life expectancy and fair value of underlying trust assets	(62,666)	(55,860)
Ending balance	\$ 2,307,380	\$ 2,370,046

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	\$ 26,439,447	8	N/A	N/A	N/A	N/A	N/A
International funds	\$ 10,372,059	2	N/A	N/A	N/A	N/A	N/A
Venture funds	\$ 1,007,203	5	10 to 15 years	\$ 1,153,497	From 5 years up to 15 years	N/A	Prohibited until liquidation date
Multi-strategy hedge funds	\$ 2,390	2	N/A	No unfunded commitment	N/A	Currently being liquidated by manager	Currently being liquidated by manager

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, 2020 and 2019, totaled \$1,283,429 and \$1,210,781, respectively. This amount is included in the notes, accounts, and other receivables balance in the combined statements of financial position.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable – At June 30, 2020 and 2019, the outstanding contributions receivable for the benefit of Museums and the new de Young building are due as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 2,647,726	\$ 3,539,256
One to five years	<u>1,110,000</u>	<u>2,703,333</u>
Less allowance for doubtful accounts		
Less unamortized discount ranging from 1.89% to 2.25%	- <u>(20,946)</u>	(39,530) <u>(69,814)</u>
Contributions receivable, net	<u>\$ 3,736,780</u>	<u>\$ 6,133,245</u>

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Exhibitions	\$ 1,181,610	\$ 1,181,610
Curatorial, conservation, and education	1,563,275	1,355,797
Administration	7,809,276	7,423,795
Construction in progress	<u>163,000</u>	<u>-</u>
	10,717,161	9,961,202
Less: accumulated depreciation and amortization	<u>(8,353,618)</u>	<u>(7,793,185)</u>
	<u>\$ 2,363,543</u>	<u>\$ 2,168,017</u>

Depreciation charged to the operating fund for the years ended June 30, 2020 and 2019, were \$694,071 and \$751,663, respectively.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

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, 2020 and 2019, 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 \$119,868,538 and \$125,760,507 at June 30, 2020 and 2019, respectively.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

NOTE 10 – LOANS PAYABLE

On April 13, 2020, COFAM received loan proceeds in the amount of \$4,150,800 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“Cares Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24 week covered period. The unforgiven portion of the PPP loan is payable at the end of 2 years at an interest rate of 1%, with deferral of payments for the first 16 months according to latest PPP guidelines. The accrued interest on the PPP loan at June 30, 2020 is \$8,982.

Long Term Note	Payments Due by Period		
	Total Amount	2021	2022
Paycheck Protection Program	\$ 4,150,800	\$ -	\$ 4,150,800
Total note payable	\$ 4,150,800	\$ -	\$ 4,150,800

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at June 30, 2020 and 2019:

	June 30, 2020			
	Time Restricted	Purpose Restricted	Endowment - Corpus	Total
General operations	\$ 22,955,014	\$ -	\$ 15,504,516	\$ 38,459,530
Curatorial and collections	1,731,156	5,443,014	11,491,629	18,665,799
Exhibitions	1,688,050	4,182,074	11,771,760	17,641,884
Education and public programs	1,401,746	1,062,945	950,636	3,415,327
Art acquisitions	20,784,909	8,177,452	39,806,918	68,769,279
Total net assets with donor restrictions	\$ 48,560,875	\$ 18,865,484	\$ 79,525,459	\$ 146,951,818

	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

Net assets with donor restrictions are expected to be released from restriction, except those held in perpetuity, between the years ending June 30, 2021 through June 30, 2025, or in accordance with the spending policy.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

NOTE 12 – 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 Organization 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, 2020 and 2019, the Organization had multiple endowment funds with deficiencies of this nature totaling in an immaterial amount.

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.

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Notes to Combined Financial Statement

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, 2020 and 2019, 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 \$597,227 and \$546,518 for 2020 and 2019, respectively. Endowment net asset composition by type of fund as of June 30, 2020 and 2019, are as follows:

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original endowment gift amount	\$ -	\$ 79,525,459	\$ 79,525,459
Accumulated earnings	-	40,686,061	40,686,061
Total donor-restricted endowments	-	120,211,520	120,211,520
Board-designated endowments	10,922,382	-	10,922,382
Total endowment funds	<u>\$ 10,922,382</u>	<u>\$ 120,211,520</u>	<u>\$ 131,133,902</u>
	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	<u>\$ 10,741,270</u>	<u>\$ 127,225,872</u>	<u>\$ 137,967,142</u>

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Notes to Combined Financial Statement

Changes in endowment net assets for the fiscal years ended June 30, 2020 and 2019, are as follows:

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 10,741,270	\$ 127,225,872	\$ 137,967,142
Investment return			
Investment income	251,188	2,692,342	2,943,530
Net depreciation (realized and unrealized)	(229,972)	(3,137,360)	(3,367,332)
Total investment return (loss)	21,216	(445,018)	(423,802)
Contributions	506,243	50,000	556,243
Transfer	231,990	(231,990)	-
Distribution of endowment assets for expenditure	(578,337)	(6,387,344)	(6,965,681)
Endowment net assets, end of year	<u>\$ 10,922,382</u>	<u>\$ 120,211,520</u>	<u>\$ 131,133,902</u>
	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	<u>\$ 10,741,270</u>	<u>\$ 127,225,872</u>	<u>\$ 137,967,142</u>

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

NOTE 13 – 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 (benefit) under the Plan was \$112,140 and \$(194,878) in 2020 and 2019, 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 recognized \$(5,046,289) at June 30, 2020 with \$(4,618,520) recorded as change in pension liability on the combined statement of activity while \$(112,140) was recorded in payroll taxes and benefits on the combined statements of functional expense. Management did not retrospectively apply the adoption of ASU No. 2017-07 to the year ended June 30, 2019 as the impact was immaterial to the combined financial statements as a whole. The full adjustment to the minimum liability at June 30, 2019 was \$(2,877,055), 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.

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Notes to Combined Financial Statement

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, 2020 and 2019:

	2020	2019
Change in projected benefit obligation		
July 1 projected benefit obligation	\$ 36,789,909	\$ 33,625,024
Service cost	112,140	96,506
Interest cost	1,261,063	1,405,178
Actuarial (gain) loss	3,766,355	3,347,705
Benefit payments	(1,644,496)	(1,684,504)
June 30 projected benefit obligation	40,284,971	36,789,909
Change in plan assets		
July 1 fair value of plan assets	28,159,450	26,923,742
Actuarial return on plan assets	505,765	2,269,171
Employer contribution	890,000	753,000
Expenses	(96,867)	(101,959)
Benefit payments	(1,644,496)	(1,684,504)
June 30 fair value of plan assets	27,813,852	28,159,450
Funded status reconciliation at June 30	\$ (12,471,119)	\$ (8,630,459)
Amounts recognized in the statement of financial position		
Noncurrent liabilities	(12,471,119)	\$ (8,630,459)
Net amount recognized	(12,471,119)	(8,630,459)
Amounts recognized in net assets		
Net losses	14,577,598	9,531,309
Net amount recognized	14,577,598	\$ 9,531,309
Accumulated benefit obligation at end of year	\$ 39,756,773	\$ 36,367,756

COFAM used a June 30, 2020 and 2019, measurement date for its pension plan.

The Fine Arts Museums of San Francisco

Notes to Combined Financial Statement

The net periodic pension cost for pension benefits for the years ending June 30, 2020 and 2019, included the following components:

	Pension Benefits 2020	Pension Benefits 2019
Service cost	\$ 112,140	\$ 96,506
Interest cost	1,261,063	1,405,178
Expected return on plan assets	(1,934,946)	(1,854,663)
Amortization of net loss	246,114	158,101
	<u>246,114</u>	<u>158,101</u>
Net periodic benefit cost	<u>\$ (315,629)</u>	<u>\$ (194,878)</u>

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2020 and 2019:

	Pension Benefits 2020	Pension Benefits 2019
Discount rate	3.52%	4.22%
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 2.59% and 3.52% as of June 30, 2020 and 2019, respectively.

Other changes recognized:

	Pension Benefits 2020	Pension Benefits 2019
Net loss/(gain)	\$ 5,292,403	\$ 3,035,156
Amortization of net loss	(246,114)	(158,101)
	<u>(246,114)</u>	<u>(158,101)</u>
Total recognized	<u>\$ 5,046,289</u>	<u>\$ 2,877,055</u>
Total recognized in net periodic benefit cost and change in net assets	<u>\$ 4,730,660</u>	<u>\$ 2,682,177</u>

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 Fine Arts Museums of San Francisco Notes to Combined Financial Statement

The weighted-average target asset allocation for the Plan is 57% equity funds, 37% 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, 2020 and 2019, by asset category are as follows:

Asset Category	Plan Assets at June 30	
	2020	2019
Separate Investment Accounts		
Equity securities	57%	56%
Debt securities	37%	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, 2020 and 2019. The fair values of the funded pension plan assets as of June 30, 2020 and 2019, by asset categories are as follows:

Asset Category	Plan Assets at June 30	
	2020	2019
Separate Investment Accounts		
Equity securities	\$ 15,959,190	\$ 15,687,892
Debt securities	10,279,074	10,821,785
Real estate	1,575,588	1,649,773
	\$ 27,813,852	\$ 28,159,450

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

<u>Years Ending,</u>	<u>Amount</u>
2021	\$ 2,019,061
2022	2,067,681
2023	2,121,794
2024	2,189,808
2025	2,186,622
2026-2030	11,227,194

Contributions – The Organization expects to contribute \$474,000 to its pension plan in fiscal year 2021.

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. 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.

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Notes to Combined Financial Statement

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 2020 and 2019, was \$565,750 and \$500,397 respectively.

NOTE 15 – RELATED-PARTY TRANSACTIONS

For the years ended June 30, 2020 and 2019, the City's in-kind appropriation for the Organization amounted to \$16,726,272 and \$16,044,378, respectively. Art purchased with deaccessioned funds by the Organization on behalf of the City totaled \$210,614 and \$150,279 for the years ended June 30, 2020 and 2019, respectively.

Contributions from trustees were approximately \$6,505,355 and \$2,771,500 during the years ended June 30, 2020 and 2019, respectively. Pledges receivable, net of discounts, due from trustees totaled \$2,441,302 and \$3,481,500 as of June 30, 2020 and 2019, respectively.

NOTE 16 – LEASED PROPERTY

The Organization leases warehouse space, office space, and certain office equipment under operating and capital leases. Rent expense on all leases of \$632,738 and \$604,137 was incurred for the years ended June 30, 2020 and 2019, respectively.

The following is a schedule of future minimum lease payments for operating leases with remaining terms in excess of one year at June 30, 2020:

	Operating Leases
2021	\$ 643,986
2022	659,195
2023	640,759
2024	575,077
2025	566,420
Thereafter	<u>3,269,793</u>
Total minimum lease payments	<u>\$ 6,355,230</u>

NOTE 17 – COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES

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.

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Notes to Combined Financial Statement

The Covid-19 outbreak is unprecedented and has had a significant impact on the economies and businesses of the world. The future impact is unknown. The Fine Arts Museums of San Francisco's technological infrastructure has been strong and has enabled most of the organization's staff members to work remotely and enabled us to reach out to members and guests. While the outbreak disruption is temporary, there is considerable uncertainty around its duration. The impact on the Fine Arts Museums of San Francisco's future financial position and operating results could materially affect its liquidity.

NOTE 18 – 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 56% and 48% of pledges receivable are from one donor at June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, approximately 13% and 55% of total contribution revenue was received from one donor, respectively.

