Report of Independent Auditors and
Combined Financial Statements

The Fine Arts Museums of San Francisco

June 30, 2023 and 2022

MOSSADAMS

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Report of Independent Auditors

The Board of Trustees
Corporation of the Fine Arts Museums and
Fine Arts Museums Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2023 and 2022, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Corporation of the Fine Arts Museums and the Fine Arts Museums Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation of the Fine Arts Museums and the Fine Arts Museums Foundation's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

San Francisco, California
December 14, 2023

Combined Financial Statements

The Fine Arts Museums of San Francisco
Combined Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 16,600,024	$ 24,227,155
Short-term investments	10,069,569	9,789,085
Notes, accounts, and other receivables, net	5,066,691	3,608,608
Contributions receivable, net	2,962,278	3,680,747
Prepaid expenses and other assets	1,726,119	698,694
Inventories, net	1,433,152	1,288,924
Furniture, fixtures, and equipment, net	3,528,483	2,855,365
Operating lease right-of-use asset	3,445,843	-
Long-term investments	173,843,996	158,029,795
Beneficial interest in perpetual trusts	2,376,468	2,334,769
Beneficial interest in de Young Museum building, net	102,192,632	108,084,601
Total assets	$ 323,245,255	$ 314,597,743
LIABILITIES AND NET ASSETS		
Accounts payable	$ 4,962,896	$ 3,426,529
Accrued expenses	3,127,077	3,290,815
Deferred revenue	2,111,959	1,160,052
Agency funds	1,499,570	1,402,628
Operating lease liability	3,766,085	-
Accrued pension liability	2,421,801	5,216,413
Total liabilities	17,889,388	14,496,437
Net assets		
Without donor restrictions		
Operating	1,891,084	1,834,385
Other	149,454,945	150,252,435
Total without donor restrictions	151,346,029	152,086,820
With donor restrictions	154,009,838	148,014,486
Total net assets	305,355,867	300,101,306
Total liabilities and net assets	$ 323,245,255	$ 314,597,743

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Activities
Year Ended June 30, 2023

	Without Donor Restrictions				
	Operating	Other	Total	With Donor Restrictions	Total 2023
Operating revenues and gains					
Admissions	$ 11,989,430	$ -	$ 11,989,430	$ -	$ 11,989,430
Membership dues	12,489,142	-	12,489,142	-	12,489,142
Museum store sales, net of cost of goods	3,784,378	-	3,784,378	-	3,784,378
City appropriation	19,697,592	-	19,697,592	-	19,697,592
Contributions, grants, and bequests	5,572,307	1,165,270	6,737,577	29,680,209	36,417,786
Special events	1,761,203	-	1,761,203	-	1,761,203
Investment income, net	349,573	-	349,573	-	349,573
Proceeds from sale of art	-	-	-	6,047	6,047
Endowment distribution	4,262,570	(16,931)	4,245,639	(268,139)	3,977,500
Other	1,385,888	-	1,385,888	-	1,385,888
Total operating revenues and gains	61,292,083	1,148,339	62,440,422	29,418,117	91,858,539
Net assets released from restrictions	34,578,105	(667,364)	33,910,741	(33,910,741)	-
Total revenues	95,870,188	480,975	96,351,163	(4,492,624)	91,858,539
Operating expenses					
Program services					
Curatorial and collections	47,329,337	-	47,329,337	-	47,329,337
Exhibitions	24,154,696	-	24,154,696	-	24,154,696
Education and public programs	3,947,405	-	3,947,405	-	3,947,405
Membership activities	3,288,536	-	3,288,536	-	3,288,536
Museum stores	3,725,255	-	3,725,255	-	3,725,255
Total program services	82,445,229	-	82,445,229	-	82,445,229
Support services					
General and administrative	9,363,961	64,379	9,428,340	-	9,428,340
Development	5,972,452	-	5,972,452	-	5,972,452
Total support services	15,336,413	64,379	15,400,792	-	15,400,792
Total operating expenses	97,781,642	64,379	97,846,021	-	97,846,021
Change in net assets from operations	(1,911,454)	416,596	(1,494,858)	(4,492,624)	(5,987,482)
Other changes					
Investment return in excess of operating endowment distribution	21,078	4,677,883	4,698,961	10,487,976	15,186,937
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	(5,891,969)	-	(5,891,969)
Change in pension liability	1,947,075	-	1,947,075	-	1,947,075
Change in net assets	56,699	(797,490)	(740,791)	5,995,352	5,254,561
Net assets, beginning of year	1,834,385	150,252,435	152,086,820	148,014,486	300,101,306
Net assets, end of year	$ 1,891,084	$ 149,454,945	$ 151,346,029	$ 154,009,838	$ 305,355,867

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Activities (Continued)
Year Ended June 30, 2022

	Without Donor Restrictions				
	Operating	Other	Total	With Donor Restrictions	Total 2022
Operating revenues and gains					
Admissions	$ 3,988,182	$ -	$ 3,988,182	$ -	$ 3,988,182
Membership dues	9,495,301	-	9,495,301	-	9,495,301
Museum store sales, net of cost of goods	2,329,062	-	2,329,062	-	2,329,062
City appropriation	17,903,984	-	17,903,984	-	17,903,984
Contributions, grants, and bequests	14,457,126	1,206,613	15,663,739	17,882,941	33,546,680
Special events	2,293,011	-	2,293,011	-	2,293,011
Investment income, net	5,743	-	5,743	-	5,743
Proceeds from sale of art	-	-	-	239,767	239,767
Endowment distribution	3,567,370	(14,239)	3,553,131	(251,263)	3,301,868
Other	804,216	-	804,216	-	804,216
Total operating revenues and gains	54,843,995	1,192,374	56,036,369	17,871,445	73,907,814
Net assets released from restrictions	19,443,586	(572,154)	18,871,432	(18,871,432)	-
Total revenues	74,287,581	620,220	74,907,801	(999,987)	73,907,814
Operating expenses					
Program services					
Curatorial and collections	31,902,680	-	31,902,680	-	31,902,680
Exhibitions	17,542,981	-	17,542,981	-	17,542,981
Education and public programs	3,135,815	-	3,135,815	-	3,135,815
Membership activities	2,676,387	-	2,676,387	-	2,676,387
Museum stores	3,272,079	-	3,272,079	-	3,272,079
Total program services	58,529,942	-	58,529,942	-	58,529,942
Support services					
General and administrative	7,865,289	60,332	7,925,621	-	7,925,621
Development	5,392,347	-	5,392,347	-	5,392,347
Total support services	13,257,636	60,332	13,317,968	-	13,317,968
Total operating expenses	71,787,578	60,332	71,847,910	-	71,847,910
Change in net assets from operations	2,500,003	559,888	3,059,891	(999,987)	2,059,904
Other changes					
Investment return in excess of (less than) operating endowment distribution	77,840	(6,181,699)	(6,103,859)	(27,536,645)	(33,640,504)
Amortization of beneficial interest in de Young Museum building	-	(5,891,969)	(5,891,969)	-	(5,891,969)
Gain on extinguishment of debt	6,230,408	-	6,230,408	-	6,230,408
Change in pension liability	1,218,167	-	1,218,167	-	1,218,167
Change in net assets	10,026,418	(11,513,780)	(1,487,362)	(28,536,632)	(30,023,994)
Net assets, beginning of year	(8,192,033)	161,766,215	153,574,182	176,551,118	330,125,300
Net assets, end of year	$ 1,834,385	$ 150,252,435	$ 152,086,820	$ 148,014,486	$ 300,101,306

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Functional Expenses
Year Ended June 30, 2023

	Program Services						Supporting Services				
	Curatorial and Collections	Exhibitions	Education and Public Programs	Membership Activities	Museum Stores	Total Program	Operating General and Administration	Other General and Administration	Development	Total Supporting	Total 2023
Personnel costs											
Salaries and wages	$ 13,922,515	$ 9,356,662	$ 2,150,992	$ 1,037,283	$ 2,082,852	$ 28,550,304	$ 4,617,313	$ -	$ 2,613,084	$ 7,230,397	$ 35,780,701
Payroll taxes and benefits	5,391,386	2,564,610	682,213	293,531	612,281	9,544,021	1,389,026	-	559,942	1,948,968	11,492,989
Total personnel costs	19,313,901	11,921,272	2,833,205	1,330,814	2,695,133	38,094,325	6,006,339	-	3,173,026	9,179,365	47,273,690
Non-personnel costs											
Occupancy	3,942,802	1,294,410	312,254	298	60,771	5,610,535	167,097	-	137,899	304,996	5,915,531
Art acquisitions	19,391,079	-	-	-	-	19,391,079	-	-	-	-	19,391,079
Supplies	355,625	494,405	82,597	166	70,428	1,003,221	31,467	-	20,972	52,439	1,055,660
Equipment rental and maintenance	529,140	617,416	95,530	58,765	220,622	1,521,473	257,082	-	300,112	557,194	2,078,667
Postage and shipping	120,367	1,735,182	4,747	269,131	159,131	2,288,558	4,829	-	31,471	36,300	2,324,858
Travel	158,212	280,759	68,568	1,558	13,412	522,509	270,062	-	74,952	345,014	867,523
Conferences, meetings, and events	36,114	89,180	84,042	547	2,959	212,842	145,335	-	1,208,983	1,354,318	1,567,160
Advertising and promotion	7,484	1,775,539	3,692	62,758	6,857	1,856,330	277	-	-	277	1,856,607
Printing	187,731	233,249	68,650	459,582	20,467	969,679	23,355	-	161,744	185,099	1,154,778
Professional services	1,178,933	1,620,826	345,466	874,538	68,437	4,088,200	1,549,603	64,379	810,774	2,424,756	6,512,956
Professional development	108,232	19,861	1,970	1,740	3,246	135,049	68,304	-	3,894	72,198	207,247
Participation fees	-	3,656,369	-	-	-	3,656,369	-	-	-	-	3,656,369
Merchant fees and bank charges	6,796	264,806	479	224,704	169,171	665,956	33,089	-	33,165	66,254	732,210
Insurance	1,443,420	12,014	-	-	-	1,455,434	348,584	-	-	348,584	1,804,018
Interest expense	-	-	-	-	-	-	199	-	-	199	199
Depreciation and amortization expense	531,206	59,023	39,349	-	6,558	636,136	19,674	-	-	19,674	655,810
Miscellaneous	18,295	80,385	6,856	3,935	228,063	337,534	438,665	-	15,460	454,125	791,659
Total non-personnel costs	28,015,436	12,233,424	1,114,200	1,957,722	1,030,122	44,350,904	3,357,622	64,379	2,799,426	6,221,427	50,572,331
Total	$ 47,329,337	$ 24,154,696	$ 3,947,405	$ 3,288,536	$ 3,725,255	$ 82,445,229	$ 9,363,961	$ 64,379	$ 5,972,452	$ 15,400,792	$ 97,846,021

The Fine Arts Museums of San Francisco
Combined Statements of Functional Expenses (Continued)
Year Ended June 30, 2022

	Program Services						Supporting Services				
	Curatorial and Collections	Exhibitions	Education and Public Programs	Membership Activities	Museum Stores	Total Program	Operating General and Administration	Other General and Administration	Development	Total Supporting	Total 2022
Personnel costs											
Salaries and wages	$ 12,745,695	$ 7,971,289	$ 1,558,793	$ 882,308	$ 1,924,443	$ 25,082,528	$ 4,204,971	$ -	$ 2,097,007	$ 6,301,978	$ 31,384,506
Payroll taxes and benefits	5,026,001	2,237,448	566,424	256,034	562,554	8,648,461	1,259,262	-	455,899	1,715,161	10,363,622
Total personnel costs	17,771,696	10,208,737	2,125,217	1,138,342	2,486,997	33,730,989	5,464,233	-	2,552,906	8,017,139	41,748,128
Non-personnel costs											
Occupancy	3,267,179	1,022,652	268,003	625	54,008	4,612,467	128,305	-	122,196	250,501	4,862,968
Art acquisitions	6,879,843	-	-	-	-	6,879,843	-	-	-	-	6,879,843
Supplies	202,978	465,077	25,282	1,489	29,337	724,163	25,148	-	23,063	48,211	772,374
Equipment rental and maintenance	447,959	527,672	71,235	48,540	208,347	1,303,753	188,720	-	338,852	527,572	1,831,325
Postage and shipping	277,720	1,602,351	871	226,095	110,635	2,217,672	2,641	-	25,807	28,448	2,246,120
Travel	84,892	137,020	42,509	2,728	7,238	274,387	95,888	-	48,737	144,625	419,012
Conferences, meetings, and events	22,615	47,988	31,968	775	427	103,773	71,735	-	1,035,726	1,107,461	1,211,234
Advertising and promotion	27,753	672,216	2,056	27,843	4,764	734,632	1,028	-	-	1,028	735,660
Printing	119,748	195,552	19,870	53,309	30,190	418,669	26,272	-	169,659	195,931	614,600
Professional services	796,921	1,727,449	502,724	1,008,005	96,936	4,132,035	848,535	60,332	1,016,979	1,925,846	6,057,881
Professional development	112,252	37,134	4,888	1,890	3,746	159,910	72,864	-	10,706	83,570	243,480
Participation fees	773	657,079	319	149	238	658,558	451	-	822	1,273	659,831
Merchant fees and bank charges	4,826	101,403	356	147,948	110,930	365,463	29,758	-	27,559	57,317	422,780
Insurance	1,447,886	3,567	-	-	-	1,451,453	378,205	-	-	378,205	1,829,658
Interest expense	-	-	-	-	-	-	20,733	-	-	20,733	20,733
Depreciation and amortization expense	402,164	44,303	29,535	-	4,923	480,925	14,768	-	-	14,768	495,693
Miscellaneous	35,475	92,781	10,982	18,649	123,363	281,250	496,005	-	19,335	515,340	796,590
Total non-personnel costs	14,130,984	7,334,244	1,010,598	1,538,045	785,082	24,798,953	2,401,056	60,332	2,839,441	5,300,829	30,099,782
Total	$ 31,902,680	$ 17,542,981	$ 3,135,815	$ 2,676,387	$ 3,272,079	$ 58,529,942	$ 7,865,289	$ 60,332	$ 5,392,347	$ 13,317,968	$ 71,847,910

See accompanying notes.

The Fine Arts Museums of San Francisco
Combined Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows used in operating activities		
Change in net assets	$ 5,254,561	$ (30,023,994)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	655,810	495,693
Amortization of right-of-use asset	800,921	-
Change in pension liability	(1,947,075)	(1,218,167)
Proceeds from sale of art	(6,047)	(239,767)
Art acquisition expense	19,391,079	6,879,843
Amortization of beneficial interest in de Young Museum building	5,891,969	5,891,969
Loss on retirement of assets	42,212	10,000
Change in allowance for doubtful accounts	(43)	(38,301)
Change in long-term contribution discount	2,858	(37,591)
Change in inventory reserve for obsolescence	2,100	(67,900)
Net unrealized and realized (gains) losses on investments	(15,331,109)	33,025,378
Contributions restricted for art acquisitions	(15,463,101)	(3,793,460)
Contributions restricted for investment in endowment	(1,165,270)	(1,206,613)
Change in beneficial interest in perpetual and other trusts	(41,699)	494,575
Forgiveness of PPP Loan	-	(6,150,800)
Change in operating assets and liabilities:		
Notes, accounts, and other receivables	(1,458,040)	(274,966)
Contributions receivables	715,611	2,128,871
Prepaid expenses and other assets	(1,027,425)	514,494
Inventories	(146,328)	(498,965)
Accounts payable and accrued expenses	412,936	(3,324,801)
Deferred revenue	951,907	(1,394,208)
Agency funds	96,942	(12,296)
Operating lease liability	(368,523)	-
Net cash (used in) provided by operating activities	(2,735,754)	1,158,994
Cash flows from investing activities		
Purchase of investments	(48,562,998)	(30,953,046)
Sale of investments	47,799,422	31,046,960
Purchase of art	(19,391,079)	(6,879,843)
Proceeds from sale of art	6,047	239,767
Capital expenditures	(1,371,140)	(1,872,331)
Net cash used in investing activities	(21,519,748)	(8,418,493)
Cash flows from financing activities		
Contributions restricted for investment in endowment	1,165,270	1,206,613
Contributions restricted for art acquisitions	15,463,101	3,793,460
Net cash provided by financing activities	16,628,371	5,000,073
Net change in cash and cash equivalents	(7,627,131)	(2,259,426)
Cash and cash equivalents, beginning of year	24,227,155	26,486,581
Cash and cash equivalents, end of year	$ 16,600,024	$ 24,227,155
Supplemental disclosures of operating cash flow information		
Cash paid for interest	$ 199	$ 29,160
Supplemental disclosures of investing and financing cash flow information		
Operating lease liabilities as a result of implementation of ASC 842	$ 4,134,608	$ -
Operating right-of-use assets, net of deferred rent as a result of implementation of ASC 842	$ 4,246,764	$ -

See accompanying notes.

Note 1 – Organization and Principles of Combination

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

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

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

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 FAMF. 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, 2023 and 2022, are as follows:

	2023	2022
New de Young Fund	$ 133,907,041	$ 136,775,688
Board-designated funds	15,547,904	13,476,747
Total other fund	$ 149,454,945	$ 150,252,435

- 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, 2023 and 2022, 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 $258,923 and $416,044 at June 30, 2023 and 2022, respectively, of City trust fund balances held for art acquisitions by the Organization. At times, cash deposits may exceed federally insured limits. Cash and cash equivalents held in money market funds that are considered nonoperating cash are intended for investment purposes and are classified separately under investments.

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

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

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

Notes, accounts, and other receivables – Notes, accounts, and other receivables are shown net of an allowance for doubtful accounts of $1,000 and $1,043 at June 30, 2023 and 2022, 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, if 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 at June 30, 2023 and 2022. 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 $139,017 and $141,117 at June 30, 2023 and 2022, 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 finance 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 to 10 years
Computer equipment and software	3 to 5 years
Other equipment	2 to 10 years
Building improvements	10 to 20 years

Impairment of long-lived assets – The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. As of June 30, 2023 and 2022, 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 on the date of the admissions ticket.

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

Special events – Special event revenue is recognized when earned on the date the event occurs.

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, 2023 and 2022, was $3,720,233 and $2,276,862, respectively.

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

Contributions, which may include pledges, are recognized as revenue in the period given or promised. Pledges 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 recipient 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, 2023 and 2022.

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. The City appropriation amount is calculated based on the cost when the services are provided.

	2023	2022
Curatorial and collections	$ 15,267,156	$ 14,052,243
Exhibition, education, and stores	2,597,296	2,318,025
General and administration	1,833,140	1,533,716
Total city appropriation	$ 19,697,592	$ 17,903,984

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, 2023 and 2022, were $1,856,607 and $735,660, respectively, and are included in advertising and promotion operating expenses.

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

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

Title to the permanent collection rests with the City or FAMF. If accepted into the City's permanent art collection, donated art objects become the property of the City. Art that is held by FAMF is generally subject to donor restriction. For the years ended June 30, 2023 and 2022, 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 statements 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 investment return in excess of operating endowment distribution, amortization of beneficial interest in de Young Museum, changes in pension liability, and extinguishment of debt.

Fair value of financial instruments – The fair value of cash, receivables, accounts payable, and accrued expenses at June 30, 2023 and 2022, 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, 2023 and 2022, 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 – 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 $108,463 and $140,637 for the years ended June 30, 2023 and 2022, respectively, are included in payroll taxes and benefits on the combined statement of functional expenses.

Leases – In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), replacing the previous leasing standard Accounting Standards Codification ("ASC") 840, Leases (ASC 840), which requires an entity that is a lessee to recognize the assets and liabilities arising from leases with terms longer than twelve months on the statement of financial position. Leases are to be classified as either operating or finance, with classification affect the pattern of expense recognition in the combined statement of activities.

The Organization adopted this new lease standard on July 1, 2022, using a modified retrospective transition as of the effective date (the "effective date method"). Under the effective date method, financial results reported in periods prior to 2023 are unchanged. The Organization elected the package of practical expedients permitted under the transition guidance. In addition, the Organization made an accounting policy election to keep leases with an initial term of 12 months or less off of the combined statement of financial position. The Organization will continue to recognize those lease payments for short-term leases in the combined statement of activities on a straight-line basis over the lease term. The adoption of the new lease standard resulted in the recognition of operating lease assets and operating lease liabilities of $4,246,764 and $4,134,608 as of July 1, 2022, respectively.

Transactions give rise to leases when the Organization receives substantially all of the economic benefits from and has ability to direct the use of specified property and equipment. The Organization has lease activity that is classified as operating leases and no activities that is classified as finance leases. Operating leases are included in operating right-of-use assets, and operating lease liabilities in the combined statements of financial position. Right-of-use assets represents the right to use an underlying asset for the lease term and lease liabilities represent obligations to make lease payments arising from the lease.

Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, the Organization uses the risk-free rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

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 combined 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 14, 2023, which is the date the combined financial statements were available to be issued.

Note 3 – Liquidity and Availability of Financial Assets

The following table reflects the Organization's financial assets as of June 30, 2023 and 2022, 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, 2023 and 2022:

	2023	2022
Financial assets		
Cash and cash equivalents	$ 16,600,024	$ 24,227,155
Short-term investments	10,069,569	9,789,085
Notes, accounts, and other receivables, net	5,066,691	3,608,608
Contributions receivable, net	2,962,278	3,680,747
Long-term investments	173,843,996	158,029,795
Beneficial interest in perpetual trusts	2,376,468	2,334,769
Financial assets, end of year	210,919,026	201,670,159
Less those unavailable for nonprogram-related general expenditure within one year, due to:		
Agency funds	1,499,570	1,402,628
Funds held for operating purposes greater than one year	2,198,246	2,143,008
Funds held for art acquisitions	3,719,902	4,852,344
Pledges, grants, and other receivables collectible beyond one year	2,473,585	2,612,061
Beneficial interest in perpetual trusts	2,376,468	2,334,769
Board-designated endowment	15,547,904	13,476,747
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	130,556,766	120,920,336
Financial assets available to meet cash needs for related general expenditures within one year	$ 52,546,585	$ 53,928,266

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

Note 4 – Fair Value Measurements

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

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

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

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.

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

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

Fair value measurements for the fiscal years ended June 30, 2023 and 2022, are as follows:

	June 30, 2023				
	Level 1	Level 2	Level 3	Investments Held at NAV	Total
Equity securities and funds:					
Domestic	$ 70,271,235	$ -	$ -	$ 18,361,936	$ 88,633,171
International	36,786,367	-	-	5,821,178	42,607,545
Fixed income:					
Corporate obligation	38,877,702	-	-	-	38,877,702
Government and agency obligation	11,083,249	-	-	-	11,083,249
Alternative investments:					
Venture capital funds	-	-	-	2,026,898	2,026,898
Beneficial interest in remainder trusts	-	-	2,376,468	-	2,376,468
Property	-	-	685,000	-	685,000
Total instruments measured at fair value	$ 157,018,553	$ -	$ 3,061,468	$ 26,210,012	$ 186,290,033

	June 30, 2022				
	Level 1	Level 2	Level 3	Investments Held at NAV	Total
Equity securities and funds:					
Domestic	$ 51,432,792	$ -	$ -	$ 20,894,247	$ 72,327,039
International	32,730,471	-	-	6,475,464	39,205,935
Fixed income:					
Corporate obligation	23,456,105	-	-	-	23,456,105
Government and agency obligation	30,250,087	-	-	-	30,250,087
Alternative investments:					
Venture capital funds	-	-	-	1,894,714	1,894,714
Beneficial interest in remainder trusts	-	-	2,334,769	-	2,334,769
Property	-	-	685,000	-	685,000
Total instruments measured at fair value	$ 137,869,455	$ -	$ 3,019,769	$ 29,264,425	$ 170,153,649

The Organization has $704,966 and $1,090,292 at June 30, 2023 and 2022, respectively, of endowment cash and equivalents not included in the fair value measurement disclosure.

Alternative investments include redeemable interests in hedge funds, 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.

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, 2023 and 2022, was $685,000 for both years.

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

The following table presents a roll-forward of the fair value of beneficial interests in split interest agreements (including the change in fair value) for nontrusteed charitable remainder trusts and life estates, as shown on the combined statements of financial position for the years ended June 30, 2023 and 2022:

	2023	2022
Beginning balance	$ 2,334,769	$ 2,829,344
Change in value due to change in actuarial life expectancy and fair value of underlying trust assets	41,699	(494,575)
Ending balance	$ 2,376,468	$ 2,334,769

The following table presents the unfunded commitments, redemption frequency, and notice period for investments in entities that calculate fair value using NAV 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	$ 18,361,936	6	N/A	$ 3,838,440	N/A	N/A	Prohibited until liquidation date
International funds	$ 5,821,178	2	N/A	N/A	N/A	N/A	N/A
Venture funds	$ 2,026,898	6	10 to 15 years	$ 1,415,659	From 5 years up to 15 years	N/A	Prohibited until liquidation date

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 NAV 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 NAV 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 NAV 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, 2023 and 2022, totaled $1,528,585 and $1,442,061, respectively. This amount is included in the notes, accounts, and other receivables balance in the combined statements of financial position.

Note 6 – Contributions Receivable

At June 30, 2023 and 2022, the outstanding contributions receivable for the benefit of Museums and the new de Young building are due as follows:

	2023	2022
Less than one year	$ 2,063,527	$ 2,554,138
One to five years	945,000	1,170,000
Less unamortized discount ranging from .20% to .34%	(46,249)	(43,391)
Contributions receivable, net	$ 2,962,278	$ 3,680,747

The contributions receivable balance – less than one year, includes an amount for the Employee Retention Tax Credit of $0 and $355,877 at June 30, 2023 and 2022, respectively.

Note 7 – Furniture, Fixtures, And Equipment

Furniture, fixtures, and equipment are classified in the operating fund and under the following functional areas at June 30, 2023 and 2022:

	2023	2022
Exhibitions	$ 1,472,081	$ 1,630,635
Curatorial, conservation, and education	1,356,544	1,284,496
Administration	10,282,717	7,349,393
Construction in progress	-	1,548,931
	13,111,342	11,813,455
Less: accumulated depreciation and amortization	(9,582,859)	(8,958,090)
	$ 3,528,483	$ 2,855,365

Depreciation charged to the operating fund for the years ended June 30, 2023 and 2022, was $655,810 and $495,693, respectively.

Note 8 – New De Young Museum Building

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

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 for the years ended June 30, 2023 and 2022, 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 $102,192,632 and $108,084,601 at June 30, 2023 and 2022, respectively.

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”). On January 29, 2021, COFAM received loan proceeds on a second PPP loan in the amount of $2,000,000. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (“Cares Act”), provides 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 two 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 1 and Loan 2 at June 30, 2023, is $0. COFAM’s PPP Loan 1’s forgiveness application was approved by the Small Business Administration (“SBA”) on August 16, 2021, in the amount of $4,150,800; COFAM’s PPP Loan 2’s forgiveness application was approved on March 23, 2022, in the amount of $2,000,000.

Note 11 – Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30, 2023 and 2022:

	June 30, 2023			
	Time Restricted	Purpose Restricted	Endowment - Corpus	Total
General operations	$ 20,349,567	$ -	$ 15,555,749	$ 35,905,316
Curatorial and collections	2,064,304	3,239,053	15,904,276	21,207,633
Exhibitions	2,264,619	4,880,032	11,771,760	18,916,411
Education and public programs	1,512,076	2,123,222	1,151,636	4,786,934
Art acquisitions	26,496,668	4,341,089	42,355,787	73,193,544
Total net assets with donor restrictions	$ 52,687,234	$ 14,583,396	$ 86,739,208	$ 154,009,838

	June 30, 2022			
	Time Restricted	Purpose Restricted	Endowment - Corpus	Total
General operations	$ 22,095,495	$ -	$ 15,504,694	$ 37,600,189
Curatorial and collections	1,151,519	2,816,014	15,862,577	19,830,110
Exhibitions	1,553,123	5,032,755	11,771,760	18,357,638
Education and public programs	1,382,866	3,020,313	950,636	5,353,815
Art acquisitions	22,208,917	4,852,344	39,811,473	66,872,734
Total net assets with donor restrictions	$ 48,391,920	$ 15,721,426	$ 83,901,140	$ 148,014,486

Net assets with donor restrictions are expected to be released from restriction, except those held in perpetuity, between the years ending June 30, 2022 through June 30, 2026, or in accordance with the spending policy.

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, 2023, the Organization had three endowment funds with deficiencies of this nature totaling $151,496, with a fair value of $4,024,168, and a corpus value of $4,175,664. At June 30, 2022, the Organization had four endowment funds with deficiencies of this nature totaling $537,957, with a fair value of $5,127,831, and a corpus value of $5,665,787.

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

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

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

Of the authorized 5.20% distribution for the years ended June 30, 2023 and 2022, 5.00% 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 $885,029 and $625,449 for 2023 and 2022, respectively.

Endowment net asset composition by type of fund as of June 30, 2023 and 2022, are as follows:

	June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original endowment gift amount	$ -	$ 86,739,208	$ 86,739,208
Accumulated earnings	-	48,604,248	48,604,248
Total donor-restricted endowments	-	135,343,456	135,343,456
Board-designated endowments	15,547,904	-	15,547,904
Total endowment funds	$ 15,547,904	$ 135,343,456	$ 150,891,360

	June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original endowment gift amount	$ -	$ 83,901,140	$ 83,901,140
Accumulated earnings	-	41,072,613	41,072,613
Total donor-restricted endowments	-	124,973,753	124,973,753
Board-designated endowments	13,476,747	-	13,476,747
Total endowment funds	$ 13,476,747	$ 124,973,753	$ 138,450,500

Changes in endowment net assets for the fiscal years ended June 30, 2023 and 2022, are as follows:

	June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 13,476,747	$ 124,973,753	$ 138,450,500
Investment return			
Investment income	297,021	2,534,237	2,831,258
Net appreciation (realized and unrealized)	1,293,161	11,771,538	13,064,699
Total investment return	1,590,182	14,305,775	15,895,957
Contributions	1,165,270	2,791,475	3,956,745
Distribution of endowment assets for expenditure	(684,295)	(6,727,547)	(7,411,842)
Endowment net assets, end of year	$ 15,547,904	$ 135,343,456	$ 150,891,360

	June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 15,474,347	$ 151,636,919	$ 167,111,266
Investment return			
Investment income	228,559	1,993,046	2,221,605
Net loss (realized and unrealized)	(2,846,379)	(26,339,377)	(29,185,756)
Total investment loss	(2,617,820)	(24,346,331)	(26,964,151)
Contributions	1,206,613	3,999,804	5,206,417
Distribution of endowment assets for expenditure	(586,393)	(6,316,639)	(6,903,032)
Endowment net assets, end of year	$ 13,476,747	$ 124,973,753	$ 138,450,500

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 $108,463 and $140,637 in 2023 and 2022, 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 $1,678,524 and $71,076 at June 30, 2023 and 2022, respectively, with $1,947,075 and $1,218,167 recorded as change in pension liability on the combined statement of activity while $(108,463) and $(140,637) was recorded in payroll taxes and benefits on the combined statements of functional expense in 2023 and 2022, respectively.

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, 2023 and 2022:

	2023	2022
Change in projected benefit obligation		
July 1 projected benefit obligation	$ 30,782,595	$ 38,619,831
Service cost	108,463	140,637
Interest cost	1,451,665	1,026,100
Actuarial gain	(1,470,271)	(6,796,430)
Benefit payments	(2,140,121)	(2,207,543)
June 30 projected benefit obligation	28,732,331	30,782,595
Change in plan assets		
July 1 fair value of plan assets	25,566,182	31,937,888
Actual return on plan assets	2,058,219	(4,462,036)
Employer contribution	956,000	388,000
Expenses	(129,750)	(90,127)
Benefit payments	(2,140,121)	(2,207,543)
June 30 fair value of plan assets	26,310,530	25,566,182
Funded status reconciliation at June 30	$ (2,421,801)	$ (5,216,413)
Amounts recognized in the combined statement of financial position		
Noncurrent liabilities	$ (2,421,801)	$ (5,216,413)
Net amount recognized	$ (2,421,801)	$ (5,216,413)
Amounts recognized in net assets		
Net losses	$ 7,418,404	$ 9,388,248
Net amount recognized	$ 7,418,404	$ 9,388,248
Accumulated benefit obligation at end of year	$ 28,406,643	$ 30,350,092

COFAM used a June 30, 2023 and 2022, measurement date for its pension plan.

The net periodic pension cost for pension benefits for the years ending June 30, 2023 and 2022, included the following components:

	Pension Benefits 2023	Pension Benefit 2022
Service cost	$ 108,463	$ 140,637
Interest cost	1,451,665	1,026,100
Expected return on plan assets	(1,720,216)	(2,173,191)
Amortization of net loss	291,320	256,171
Net periodic benefit cost (income)	$ 131,232	$ (750,283)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2023 and 2022:

	Pension Benefits 2023	Pension Benefits 2022
Discount rate	4.89%	2.73%
Rate of compensation	3.00%	2.50%
Expected return on plan assets	7.00%	7.00%

The discount rate used to determine the projected benefit obligation was 5.43% and 4.89% as of June 30, 2023 and 2022, respectively.

Other changes recognized:

	Pension Benefits 2023	Pension Benefits 2022
Net gain	$ (1,678,524)	$ (71,076)
Amortization of net gain	(291,320)	(256,171)
Total recognized	$ (1,969,844)	$ (327,247)
Total recognized in net periodic benefit cost and change in net assets	$ (1,838,612)	$ (1,077,530)

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 58% equity funds, 36% 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, 2023 and 2022, by asset category are as follows:

Asset category	Plan Assets at June 30	
	2023	2022
Separate investment accounts		
Equity securities	62%	58%
Debt securities	31%	36%
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, 2023 and 2022. The fair values of the funded pension plan assets as of June 30, 2023 and 2022, by asset categories are as follows:

Asset category	Plan Assets at June 30	
	2023	2022
Separate investment accounts		
Equity securities	$ 16,429,511	$ 14,978,141
Debt securities	8,277,494	9,131,656
Real estate	1,603,525	1,456,385
	$ 26,310,530	$ 25,566,182

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

Years Ending,	Amount
2024	$ 2,266,417
2025	2,258,498
2026	2,279,246
2027	2,318,851
2028	2,264,638
2029-2033	11,477,517

Contributions – The Organization expects to contribute $480,000 to its pension plan in fiscal year 2024.

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.

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 2023 and 2022, was $772,178 and $710,235, respectively.

Note 15 – Related-Party Transactions

For the years ended June 30, 2023 and 2022, the City's in-kind appropriation for the Organization amounted to $19,697,592 and $17,903,984, respectively. Art purchased with deaccessioned funds by the Organization on behalf of the City totaled $163,168 and $629,533 for the years ended June 30, 2023 and 2022, respectively.

Contributions from trustees were approximately $17,704,197 and $6,786,218 during the years ended June 30, 2023 and 2022, respectively. Pledges receivable, net of discounts, due from trustees totaled $175,000 and $505,000 as of June 30, 2023 and 2022, respectively.

Note 16 – Leased Property

Leases (ASC 840 only)

Under ASC 840, future minimum non-cancelable lease payments under the Organization's operating leases as of June 30, 2022, were as follows:

Year Ending June 30,	
2023	$ 637,907
2024	641,887
2025	608,291
2026	583,577
2027	641,931
Thereafter	2,102,828
Total minimum lease payments	$ 5,216,421

Rent expense, included in general and administrative expenses totaled $622,490 in 2022.

Leases (ASC 842 only)

The Organization leases warehouse space, office space, and certain office equipment under operating leases.

Supplemental cash flow and other information related to leases was as follows:

	2023
Right-of-use assets, net of deferred rent as a result of implementation of ASC 842	$ 4,246,764
Weighted average remaining lease term (years)	7.34
Weighted average discount rate	3.97%

At June 30, 2023, the undiscounted future lease payments over the lease term, along with a reconciliation of the undiscounted cash flows to lease liability, are as follows:

Year Ending June 30,	
2024	$ 541,861
2025	558,116
2026	574,860
2027	592,106
2028	609,869
Thereafter	1,492,959
Total lease payments	4,369,771
Less: Present value discount	(603,686)
Operating lease liability	$ 3,766,085

Rent expense, included in general and administrative expenses, totaled $637,907 in 2023.

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.

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 17%, 10%, and 10% of pledges receivable are from three donors and 29%, 24%, and 12% of pledges receivable are from three donors at June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, approximately 36% and 14% of total contribution revenue was received from one donor each year, respectively.