

San Diego Museum of Art

Financial Statements and Supplemental Information

Years Ended June 30, 2017 and 2016



SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information
Years Ended June 30, 2017 and 2016

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplemental Information:	
Schedule of Contributions	21

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of San Diego Museum of Art

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Museum of Art (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of San Diego Museum of Art as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Aldrich CPAs + Advisors LLP

San Diego, California
November 29, 2017

SAN DIEGO MUSEUM OF ART**Statements of Financial Position**

June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash	\$ 245,041	\$ 179,969
Accounts receivable	137,395	201,336
Promises to give, net	139,715	74,000
Grants receivable	52,500	13,040
Inventory	160,860	180,139
Prepaid expenses	32,831	34,071
Property and equipment, net of accumulated depreciation	5,942,388	6,313,387
Deferred charges, net of accumulated amortization	105,539	113,605
Investments - charitable remainder trusts	865,273	810,281
Investments	72,526,934	69,507,528
Collections (Note 1)	-	-
Total Assets	<u>\$ 80,208,476</u>	<u>\$ 77,427,356</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 801,230	\$ 443,625
Accrued expenses	441,505	422,631
Debt obligations	<u>6,084,990</u>	<u>6,135,206</u>
Total Liabilities	7,327,725	7,001,462
Net Assets:		
Unrestricted:		
Board designated endowment	48,457,871	45,364,058
Art acquisitions	35,474	1,144,488
Support organizations	-	167,004
Operating	<u>3,202,227</u>	<u>3,637,992</u>
	51,695,572	50,313,542
Temporarily restricted	11,287,804	10,269,969
Permanently restricted	<u>9,897,375</u>	<u>9,842,383</u>
Total Net Assets	<u>72,880,751</u>	<u>70,425,894</u>
Total Liabilities and Net Assets	<u>\$ 80,208,476</u>	<u>\$ 77,427,356</u>

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Investment Activity:				
Revenue and Support:				
Special events	\$ 1,513,330	\$ -	\$ -	\$ 1,513,330
Contributions	826,437	250,020	-	1,076,457
Memberships	1,016,114	-	-	1,016,114
Admissions	996,804	-	-	996,804
Miscellaneous	496,200	-	-	496,200
City of San Diego	452,284	-	-	452,284
Store sales, \$476,312, less cost of goods sold of \$245,606	230,706	-	-	230,706
Traveling exhibitions	140,000	-	-	140,000
Grants	97,500	-	-	97,500
Support organizations	93,337	-	-	93,337
Education	59,214	-	-	59,214
County of San Diego	37,000	-	-	37,000
Concerts	9,232	-	-	9,232
Net assets released from restrictions, satisfaction of program restrictions	464,558	(464,558)	-	-
Total Revenue and Support	6,432,716	(214,538)	-	6,218,178
Investment Activity:				
Interest income	2,098	-	-	2,098
Endowment allocation	4,486,189	-	-	4,486,189
Total Investment Activity	4,488,287	-	-	4,488,287
Total Revenue, Support and Investment Activity	10,921,003	(214,538)	-	10,706,465
Expenses:				
Programs	5,520,373	-	-	5,520,373
Program services	4,082,353	-	-	4,082,353
Supporting services	3,234,825	-	-	3,234,825
Total Expenses	12,837,551	-	-	12,837,551
Change in Operations	(1,916,548)	(214,538)	-	(2,131,086)
Other Income (Loss):				
Investment return	6,560,971	2,456,169	54,992	9,072,132
Endowment allocation	(3,262,393)	(1,223,796)	-	(4,486,189)
Total Other Income	3,298,578	1,232,373	54,992	4,585,943
Change in Net Assets	1,382,030	1,017,835	54,992	2,454,857
Net Assets, beginning	50,313,542	10,269,969	9,842,383	70,425,894
Net Assets, ending	\$ 51,695,572	\$ 11,287,804	\$ 9,897,375	\$ 72,880,751

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support and Investment Activity:				
Revenue and Support:				
Contributions	\$ 1,182,804	\$ 587,323	\$ -	\$ 1,770,127
Special events	1,380,395	-	-	1,380,395
Memberships	1,054,087	-	-	1,054,087
Admissions	782,228	-	-	782,228
City of San Diego	393,089	-	-	393,089
Traveling exhibitions	322,417	-	-	322,417
Miscellaneous	322,360	-	-	322,360
Store sales, \$493,609, less cost of goods sold of \$266,148	227,461	-	-	227,461
Support organizations	107,288	-	-	107,288
Education	49,980	-	-	49,980
County of San Diego	27,000	-	-	27,000
Concerts	14,907	-	-	14,907
Grants	13,040	-	-	13,040
Net assets released from restrictions, satisfaction of program restrictions	458,049	(458,049)	-	-
Total Revenue and Support	6,335,105	129,274	-	6,464,379
Investment Activity:				
Interest income	795	-	-	795
Endowment allocation	4,468,547	-	-	4,468,547
Total Investment Activity	4,469,342	-	-	4,469,342
Total Revenue, Support and Investment Activity	10,804,447	129,274	-	10,933,721
Expenses:				
Programs	4,564,635	-	-	4,564,635
Program services	4,278,103	-	-	4,278,103
Supporting services	3,348,709	-	-	3,348,709
Total Expenses	12,191,447	-	-	12,191,447
Change in Operations	(1,387,000)	129,274	-	(1,257,726)
Other Income (Loss):				
Investment return	(1,714,276)	1,084,212	(1,697,825)	(2,327,889)
Endowment allocation	(3,021,750)	(1,446,797)	-	(4,468,547)
Total Other Loss	(4,736,026)	(362,585)	(1,697,825)	(6,796,436)
Change in Net Assets	(6,123,026)	(233,311)	(1,697,825)	(8,054,162)
Net Assets, beginning	56,436,568	10,503,280	11,540,208	78,480,056
Net Assets, ending	\$ 50,313,542	\$ 10,269,969	\$ 9,842,383	\$ 70,425,894

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Functional Expenses

Year Ended June 30, 2017 with Comparative Totals for 2016

	Programs						
	Curatorial	Exhibitions and Collections	Art Acquisitions	Education	Audience Program	Membership	Library
Labor Costs:							
Payroll expenses:							
Wages	\$ 537,791	\$ 358,034	\$ -	\$ 250,281	\$ 61,809	\$ 207,561	\$ 15,420
Payroll taxes	34,564	26,088	-	20,355	4,672	15,110	1,180
Employee benefits	43,189	82,459	-	72,405	9,677	33,355	-
Pension benefits	14,534	12,419	-	8,533	1,824	5,607	-
Workers' compensation	6,959	4,402	-	3,879	963	2,685	272
	637,037	483,402	-	355,453	78,945	264,318	16,872
Temporary labor	362,885	1,106	-	29,472	-	-	-
	999,922	484,508	-	384,925	78,945	264,318	16,872
Other Expenses:							
Advertising	-	250	-	-	-	-	-
Amortization	-	-	-	-	-	-	-
Art acquisition	-	-	1,483,049	-	-	-	-
Audio visual	-	-	-	1,296	11,237	433	-
Automobile	285	74	-	1,504	-	12	-
Books	700	41	-	32	27	-	1,816
Cash short (over)	-	-	-	-	-	-	-
Catalogs	1,101	-	-	473	-	-	-
Catering	5,314	-	-	13,337	1,567	11,790	-
Conservation and binding	-	62,250	-	-	-	-	-
Contract services	67,760	123,734	-	56,968	12,435	6,159	14,206
Credit card charges	-	-	-	-	-	26,189	-
Depreciation	594,447	68,320	-	35,156	35,156	4,330	67,887
Dues and subscriptions	165	1,500	-	105	-	199	3,161
Equipment	-	-	-	-	-	-	-
Fees	437,536	21,652	-	6,017	51,955	2,251	6,915
Freight	1,365	242,632	-	-	-	-	-
Graphics	90	37,438	-	-	-	-	-
Income tax	-	-	-	-	-	-	-
Insurance	64,230	135,417	-	3,799	3,799	468	7,335
Interest	27,151	3,120	-	1,606	1,606	198	3,101
Legal and audit	-	-	-	-	-	-	-
Marketing	-	-	-	-	-	11,684	-
Miscellaneous	-	-	-	-	-	-	-
Photographs and slides	7,863	10,516	-	500	-	-	-
Postage	3,655	2,307	-	487	131	13,566	342
Printing	39,887	452	-	20,552	-	14,104	-
Property taxes	-	-	-	-	-	-	-
Rentals	5,870	33,558	-	30,951	8,588	2,368	3,566
Repair and maintenance	-	15,035	-	500	-	500	-
Small tools	4,581	13,502	-	2,349	2,272	719	-
Supplies and materials	2,114	43,879	-	41,299	3,052	522	718
Telephone	2,610	1,596	-	1,572	399	599	599
Travel and seminars	22,212	-	-	5,740	135	-	-
Utilities	399,814	46,871	-	28,886	23,645	2,912	45,660
	1,688,750	864,144	1,483,049	253,129	156,004	99,003	155,306
Total Expenses	\$ 2,688,672	\$ 1,348,652	\$ 1,483,049	\$ 638,054	\$ 234,949	\$ 363,321	\$ 172,178
Total Programs			\$ 5,520,373				

See accompanying notes to financial statements.

Program Services					Supporting Services						
Marketing	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development	Total	2016		
\$	312,576	\$ -	\$ 130,901	\$ 146,424	\$ 238,711	\$ 745,727	\$ 591,078	\$ 392,113	3,988,426	\$ 3,795,701	
	23,685	-	10,576	11,433	18,097	46,630	44,010	24,729	281,129	273,118	
	42,873	-	13,934	17,225	31,496	77,319	98,599	24,913	547,444	463,200	
	10,751	-	2,623	3,514	7,008	31,238	14,843	13,252	126,146	122,890	
	3,807	-	1,732	2,081	2,660	8,978	7,277	5,550	51,245	57,498	
	393,692	-	159,766	180,677	297,972	909,892	755,807	460,557	4,994,390	4,712,407	
	11,496	-	6,087	8,361	3,379	-	100,159	4,430	527,375	542,340	
	405,188	-	165,853	189,038	301,351	909,892	855,966	464,987	5,521,765	5,254,747	
	168,803	663	-	880	-	-	59	675	171,330	154,555	
	-	-	-	-	-	8,066	-	-	8,066	8,068	
	-	-	-	-	-	-	-	-	1,483,049	24,000	
	-	1,693	-	4,111	150	150	150	-	19,220	52,079	
	67	-	-	396	-	236	2,914	813	6,301	6,554	
	-	799	-	-	-	-	-	-	3,415	4,837	
	-	-	130	-	48	-	-	-	178	97	
	357	197	-	-	-	2,307	-	692	5,127	2,122	
	54	16,144	-	156,475	1,084	8,557	-	4,575	218,897	321,963	
	-	-	-	-	-	-	-	-	62,250	189,008	
	11,743	27,429	3,244	230,883	9,332	90,843	21,227	49,987	725,950	1,164,405	
	-	-	11,013	-	21,433	-	-	-	58,635	52,311	
	6,494	-	6,494	3,290	6,494	13,941	14,114	9,785	865,908	992,665	
	5,076	110	280	-	25	33,220	-	-	43,841	38,609	
	-	-	-	-	-	42,352	-	-	42,352	19,485	
	2,792	15,016	2,185	28,947	133,444	22,101	13,445	5,118	749,374	506,832	
	-	-	-	-	-	-	-	-	243,997	476,270	
	-	-	-	-	-	-	-	-	37,528	35,557	
	-	-	-	-	-	40,506	-	-	40,506	58,900	
	702	-	-	356	1,404	1,506	1,525	1,057	221,598	359,972	
	297	-	-	150	593	637	645	447	39,551	9,225	
	-	-	-	-	-	93,276	-	-	93,276	144,706	
	250,071	-	-	-	-	-	-	780	262,535	341,056	
	-	188,021	-	-	-	-	-	-	188,021	98,857	
	-	-	-	7,205	-	-	-	235	26,319	29,556	
	6,659	792	3,661	1,666	412	1,674	266	4,345	39,963	54,605	
	79,886	2,679	54	4,372	10,043	315	205	15,588	188,137	284,282	
	-	-	-	-	-	-	10,578	-	10,578	10,422	
	978	4,005	7,182	90,494	1,329	4,657	29,265	978	223,789	263,224	
	1,077	-	6,788	-	-	13,642	247,728	-	285,270	289,970	
	139	320	211	1,529	202	4,383	18,445	32	48,684	46,716	
	2,156	1,519	5,314	25,318	1,656	4,860	91,753	4,615	228,775	207,283	
	599	-	1,155	601	1,545	8,312	4,981	1,545	26,113	40,935	
	-	960	5,229	-	-	24,012	-	409	58,697	63,520	
	4,368	-	-	2,213	8,736	9,377	9,493	6,581	588,556	584,054	
	542,318	260,347	52,940	558,886	197,930	428,930	466,793	108,257	7,315,786	6,936,700	
\$	<u>947,506</u>	<u>\$ 260,347</u>	<u>\$ 218,793</u>	<u>\$ 747,924</u>	<u>\$ 499,281</u>	<u>\$ 1,338,822</u>	<u>\$ 1,322,759</u>	<u>\$ 573,244</u>	<u>\$ 12,837,551</u>	<u>\$ 12,191,447</u>	
Total Program Services					\$ 4,082,353	Total Supporting Services		\$ 3,234,825			

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2016

	Programs						
	Curatorial	Exhibitions and Collections	Art Acquisitions	Education	Audience Program	Membership	Library
Labor Costs:							
Payroll expenses:							
Wages	\$ 494,585	\$ 329,902	\$ -	\$ 221,045	\$ 77,918	\$ 206,767	\$ 16,725
Payroll taxes	33,046	24,329	-	19,205	5,725	15,126	1,270
Employee benefits	44,164	74,086	-	61,858	14,418	24,123	-
Pension benefits	13,713	11,638	-	7,905	2,719	5,529	733
Workers' compensation	7,808	4,939	-	4,353	1,081	3,013	305
	593,316	444,894	-	314,366	101,861	254,558	19,033
Temporary labor	359,251	-	-	34,623	-	-	-
	952,567	444,894	-	348,989	101,861	254,558	19,033
Other Expenses:							
Advertising	350	250	-	-	-	-	-
Amortization	-	-	-	-	-	-	-
Art acquisition	-	-	24,000	-	-	-	-
Audio visual	-	29,774	-	903	8,806	997	-
Automobile	641	132	-	1,310	9	-	-
Books	861	-	-	390	405	-	2,459
Cash short (over)	-	-	-	-	-	-	-
Catalogs	817	-	-	714	6	-	-
Catering	2,861	-	-	4,148	769	28,568	-
Conservation and binding	315	188,693	-	-	-	-	-
Contract services	74,621	203,600	-	28,022	52,542	6,660	16,372
Credit card charges	-	-	-	-	-	23,887	-
Depreciation	681,465	78,321	-	40,302	40,302	4,963	77,825
Dues and subscriptions	830	-	-	-	-	199	3,420
Equipment	-	1,148	-	-	-	-	-
Fees	98,110	234,212	-	7,276	82,627	2,607	7,037
Freight	2,901	473,369	-	-	-	-	-
Graphics	-	35,323	-	-	-	-	-
Income tax	-	-	-	-	-	-	-
Insurance	65,145	272,564	-	3,853	3,853	474	7,440
Interest	6,334	728	-	375	375	46	723
Legal and audit	-	-	-	-	-	-	-
Marketing	-	-	-	-	-	16,705	-
Miscellaneous	-	-	-	-	-	-	-
Photographs and slides	471	17,277	-	-	-	-	-
Postage	6,368	1,033	-	75	24	17,291	550
Printing	108,460	1,056	-	2,285	9,909	30,655	185
Property taxes	-	-	-	-	-	-	-
Rentals	6,996	14,098	-	37,684	27,896	5,186	16,243
Repair and maintenance	-	7,046	-	-	-	-	-
Small tools	864	17,929	-	2,044	2,997	-	873
Supplies and materials	2,432	40,346	-	40,010	9,240	1,780	2,018
Telephone	4,187	3,036	-	3,036	759	1,139	1,139
Travel and seminars	15,618	-	-	6,374	504	2,329	45
Utilities	396,968	45,624	-	29,282	23,477	2,891	45,335
	1,477,615	1,665,559	24,000	208,083	264,500	146,377	181,664
Total Expenses	\$ 2,430,182	\$ 2,110,453	\$ 24,000	\$ 557,072	\$ 366,361	\$ 400,935	\$ 200,697
Total Programs			\$ 4,564,635				

See accompanying notes to financial statements.

Program Services					Supporting Services				
Marketing	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development	Total	
\$ 297,380	\$ -	\$ 102,350	\$ 131,926	\$ 203,532	\$ 725,652	\$ 575,015	\$ 412,904	3,795,701	
21,615	-	10,631	10,438	15,359	46,112	43,476	26,786	273,118	
33,836	-	18,049	10,822	17,705	66,563	80,571	17,005	463,200	
10,076	-	2,497	3,022	5,380	31,193	15,027	13,458	122,890	
4,272	-	1,943	2,334	2,984	10,074	8,165	6,227	57,498	
367,179	-	135,470	158,542	244,960	879,594	722,254	476,380	4,712,407	
-	-	32,436	6,853	7,804	-	101,373	-	542,340	
367,179	-	167,906	165,395	252,764	879,594	823,627	476,380	5,254,747	
150,649	27	-	1,780	-	-	685	814	154,555	
-	-	-	-	-	8,068	-	-	8,068	
-	-	-	-	-	-	-	-	24,000	
150	1,787	-	6,390	151	1,635	301	1,185	52,079	
101	923	16	129	27	162	2,342	762	6,554	
-	714	-	-	-	-	-	8	4,837	
-	-	113	-	(16)	-	-	-	97	
427	-	-	-	-	69	-	89	2,122	
-	18,848	-	221,956	454	13,440	-	30,919	321,963	
-	-	-	-	-	-	-	-	189,008	
299,869	17,542	2,050	258,509	9,659	103,596	21,445	69,918	1,164,405	
-	-	10,379	-	18,045	-	-	-	52,311	
7,445	-	7,445	3,772	7,445	15,983	16,180	11,217	992,665	
911	100	280	-	25	30,223	450	2,171	38,609	
-	-	-	-	-	18,337	-	-	19,485	
3,979	15,024	2,124	6,579	2,969	29,019	11,091	4,178	506,832	
-	-	-	-	-	-	-	-	476,270	
234	-	-	-	-	-	-	-	35,557	
-	-	-	-	-	58,900	-	-	58,900	
712	-	-	361	1,423	1,528	1,547	1,072	359,972	
69	-	-	35	138	148	150	104	9,225	
-	-	-	-	-	144,706	-	-	144,706	
321,732	-	-	-	-	-	-	2,619	341,056	
-	98,857	-	-	-	-	-	-	98,857	
350	3,000	-	8,006	-	-	-	452	29,556	
12,249	454	3,738	508	315	3,368	29	8,603	54,605	
83,026	1,642	815	6,787	7,397	407	307	31,351	284,282	
-	-	-	-	-	-	10,422	-	10,422	
1,699	2,175	13,162	73,380	1,399	4,500	45,774	13,032	263,224	
-	-	3,232	-	-	13,803	265,889	-	289,970	
2,835	4,794	838	-	1,072	922	11,166	382	46,716	
1,799	3,929	1,627	20,660	2,377	6,680	65,597	8,788	207,283	
1,139	-	2,277	1,211	2,932	10,073	7,075	2,932	40,935	
1,218	1,646	8,560	-	-	20,498	3,158	3,570	63,520	
4,337	-	-	2,197	8,674	9,310	9,425	6,534	584,054	
894,930	171,462	56,656	612,260	64,486	495,375	473,033	200,700	6,936,700	
\$ 1,262,109	\$ 171,462	\$ 224,562	\$ 777,655	\$ 317,250	\$ 1,374,969	\$ 1,296,660	\$ 677,080	\$ 12,191,447	
Total Program Services				\$ 4,278,103	Total Supporting Services		\$ 3,348,709		

SAN DIEGO MUSEUM OF ART**Statements of Cash Flows**

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,454,857	\$ (8,054,162)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	865,908	992,665
Amortization	8,066	8,068
Net realized and unrealized (gains) losses on investments	(8,323,857)	1,402,131
Changes in operating assets and liabilities:		
Accounts receivable	63,941	(70,254)
Promises to give, net	(65,715)	7,168
Grants receivable	(39,460)	(13,040)
Inventory	19,279	10,672
Prepaid expenses	1,240	6,397
Accounts payable	357,605	(303,533)
Accrued expenses	18,874	(68,550)
Net Cash Used by Operating Activities	(4,639,262)	(6,082,438)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	6,244,766	5,850,818
Purchases of investments	(940,315)	(992,704)
Change in charitable remainder trusts	(54,992)	1,697,825
Purchases of property and equipment	(494,909)	(602,340)
Net Cash Provided by Investing Activities	4,754,550	5,953,599
Cash Flows Used by Financing Activities:		
Payments of debt obligations	(50,216)	(50,216)
Net Increase (Decrease) in Cash	65,072	(179,055)
Cash, beginning	179,969	359,024
Cash, ending	\$ 245,041	\$ 179,969
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 39,551	\$ 9,225

See accompanying notes to financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

San Diego Museum of Art (Museum) is a California nonprofit corporation formed in 1925. The Museum's purpose is to promote artistic interests, operate a museum and related facilities, maintain collections of art and assist in the education and entertainment of those interested in art. The Museum's support and revenue comes primarily from memberships, contributions, admissions and investment returns.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Museum may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts and Grants Receivable

Accounts and grants receivable consist primarily of amounts due in less than one year from the City of San Diego, other museums and miscellaneous other small amounts. Because of the nature of the Museum's revenues and collection history, no allowance for doubtful accounts is deemed necessary at June 30, 2017 and 2016.

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Inventory

Inventory consists primarily of books and catalogs for resale and is valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

The Museum capitalizes all expenditures for property and equipment in excess of \$2,500. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 20 years.

Charitable Remainder Trusts

Charitable remainder trusts are trusts established in connection with split-interest agreements, in which the donors or third-party beneficiaries receive specified distributions during the term of the agreements. Remainder trusts are recorded at net present value which approximates market value. Upon termination of the trusts, the Museum receives the assets remaining in the trusts.

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. The fair value is determined using quoted market prices. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase or decrease in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Collections

The Museum maintains collections of art that are significant in relation to its total assets. Collection items acquired either through purchase or donation are not capitalized or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. The Museum employs curators to ensure that the collections are protected and preserved.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Contributions

Many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets, except for works of art, are recorded at their fair values in the period received.

Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred.

Income Tax Status

The Museum is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Museum remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose.

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Income Tax Status, continued

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Museum recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2017 and 2016 and therefore no amounts have been accrued.

The Museum files informational and income tax returns in the United States, California, and in local jurisdictions. State and local jurisdictions have statutes of limitations that generally range from three to five years.

Fair Value Measurements

The Museum defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Museum applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. In addition, the Museum reports certain investments using the net asset value per share as determined by investment managers, allowing the net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, other assets, and payables approximate fair values as of June 30, 2017 and 2016, due to the relative short maturities of these instruments.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Registered investment companies (Mutual funds): Valued at the daily closing price as reported by the fund. Mutual funds held by the Museum are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact that price.

Money market account: Valued at the closing price reported on the active market on which the securities are traded.

Corporate debt and stocks: Valued at the closing price reported on the active market on which the securities are traded.

Subsequent Events

The Museum has evaluated subsequent events through November 29, 2017, which is the date the financial statements were available to be issued.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 2 – Investments

The fair market value of investments is categorized as follows for the year ended June 30, 2017:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,746,717	\$ -	\$ -	\$ 2,746,717
Mutual funds:				
Large cap – domestic	14,596,862	-	-	14,596,862
Large cap – international developed	-	11,294,725	-	11,294,725
Large cap – emerging markets	3,412,213	-	-	3,412,213
Mid cap – domestic	1,812,728	4,267,879	-	6,080,607
Small cap – domestic	2,198,278	-	-	2,198,278
Fixed income – domestic	11,747,578	-	-	11,747,578
Fixed income – international	3,822,050	-	-	3,822,050
Equity securities:				
Large cap – domestic	7,224,016	-	-	7,224,016
Alternative investments:				
Hedge funds	-	-	4,127,393	4,127,393
Private equity funds	-	-	5,276,495	5,276,495
Beneficial interest in assets held at the San Diego Foundation	-	-	865,273	865,273
	<u>\$ 47,560,442</u>	<u>\$ 15,562,604</u>	<u>\$ 10,269,161</u>	<u>\$ 73,392,207</u>

Changes in the fair value of level 3 investments for the year ended June 30, 2017 are as follows:

	Hedge funds	Private equity funds	Beneficial interests in assets held at the San Diego Foundation	Total
Fair value, beginning	\$ 5,295,786	\$ 6,021,777	\$ 810,281	\$ 12,127,844
Transfers	(1,489,705)	(1,335,748)	-	(2,825,453)
Distributions	-	-	(37,714)	(37,714)
Investment expenses	-	(49,464)	(4,127)	(53,591)
Investment gains	321,312	639,930	96,833	1,058,075
Fair value, ending	<u>\$ 4,127,393</u>	<u>\$ 5,276,495</u>	<u>\$ 865,273</u>	<u>\$ 10,269,161</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 2 – Investments, continued

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

Description	Fair value at June 30, 2017	Unfunded commitments	Redemption frequency	Redemption notice period
Mutual funds [a]:				
Large cap – international developed	\$ 11,294,725	none	daily	10 – 30 days
Mid cap – domestic	6,080,607	none	monthly	7 days
Hedge funds [b]	4,127,393	none	quarterly	90 – 95 days
Private equity funds [c]	5,276,495	\$ 2,864,590	not allowed	n/a

[a] Mutual funds represent investments in publically traded companies, using various strategies as identified above.

[b] Hedge funds are considered to be investments in fund of funds. These investments employ a variety of strategies including absolute return, various long/short strategies, and credit funds of which \$3,943,162 is subject to a one year lockup period.

[c] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

The fair market value of investments is categorized as follows for the year ended June 30, 2016:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 4,337,842	\$ -	\$ -	\$ 4,337,842
Mutual funds:				
Large cap – domestic	11,648,723	-	-	11,648,723
Large cap – international developed	-	9,611,654	-	9,611,654
Large cap – emerging markets	2,922,879	-	-	2,922,879
Mid cap – domestic	1,609,846	3,569,075	-	5,178,921
Small cap – domestic	1,836,089	-	-	1,836,089
Fixed income – domestic	11,719,148	-	-	11,719,148
Fixed income – international	3,561,605	-	-	3,561,605
Equity securities:				
Large cap – domestic	7,373,104	-	-	7,373,104
Alternative investments:				
Hedge funds	-	-	5,295,786	5,295,786
Private equity funds	-	-	6,021,777	6,021,777
Beneficial interest in assets held at the San Diego Foundation	-	-	810,281	810,281
	<u>\$ 45,009,236</u>	<u>\$ 13,180,729</u>	<u>\$ 12,127,844</u>	<u>\$ 70,317,809</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 2 – Investments, continued

Changes in the fair value of level 3 investments for the year ended June 30, 2016 are as follows:

	Hedge funds	Private equity funds	Beneficial interests in assets held at the San Diego Foundation	Total
Fair value, beginning	\$ 5,737,697	\$ 6,696,170	\$ 865,582	\$ 13,299,449
Transfers	-	(939,041)	-	(939,041)
Distributions	-	-	(37,658)	(37,658)
Investment expenses	-	(29,043)	(3,981)	(33,024)
Investment gains (losses)	(441,911)	293,691	(13,662)	(161,882)
Fair value, ending	\$ <u>5,295,786</u>	\$ <u>6,021,777</u>	\$ <u>810,281</u>	\$ <u>12,127,844</u>

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

Description	Fair value at June 30, 2016	Unfunded commitments	Redemption frequency	Redemption notice period
Mutual funds [a]:				
Large cap – international developed	\$ 9,611,654	none	daily	10 – 30 days
Mid cap – domestic	5,178,921	none	monthly	7 days
Hedge funds [b]	5,295,786	none	quarterly	90 – 95 days
Private equity funds [c]	6,021,777	\$ 3,649,411	not allowed	n/a

[a] Mutual funds represent investments in publically traded companies, using various strategies as identified above.

[b] Hedge funds are considered to be investments in fund of funds. These investments employ a variety of strategies including absolute return, various long/short strategies, and credit funds of which \$3,648,883 is subject to a one year lockup period.

[c] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 2 – Investments, continued

The following schedules summarize the investment return and its classification:

June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 693,892	\$ 244,325	\$ -	\$ 938,217
Investment expenses	(179,157)	(65,777)	-	(244,934)
Net realized gains	908,828	334,506	-	1,243,334
Net unrealized gains	5,137,408	1,943,115	-	7,080,523
Change in charitable remainder trusts	-	-	54,992	54,992
Investment return	<u>\$ 6,560,971</u>	<u>\$ 2,456,169</u>	<u>\$ 54,992</u>	<u>\$ 9,072,132</u>

June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 750,355	\$ 241,556	\$ -	\$ 991,911
Investment expenses	(164,666)	(55,178)	-	(219,844)
Net realized gains	638,893	197,825	-	836,718
Net unrealized gains (losses)	(2,938,858)	700,009	-	(2,238,849)
Change in charitable remainder trusts	-	-	(1,697,825)	(1,697,825)
Investment return	<u>\$ (1,714,276)</u>	<u>\$ 1,084,212</u>	<u>\$ (1,697,825)</u>	<u>\$ (2,327,889)</u>

Note 3 – Promises to Give

Promises to give consist of the following:

	2017	2016
Gross pledges	\$ 144,000	\$ 74,000
Less imputed discount, at 3%	<u>(4,285)</u>	<u>-</u>
	<u>\$ 139,715</u>	<u>\$ 74,000</u>

	2017	2016
Due in one year or less	\$ 69,000	\$ 62,000
Due after one year through five years	<u>70,715</u>	<u>12,000</u>
	<u>\$ 139,715</u>	<u>\$ 74,000</u>

No allowance was considered necessary at June 30, 2017 and 2016 because management believes that all amounts are collectible.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 4 – Property and Equipment

The Museum buildings constructed with Museum funds have been gifted to the City of San Diego. Other improvements to the real property by the Museum will revert to the City of San Diego at the termination of the lease agreement (Note 5). Improvements made and assets owned by the Museum are as follows:

	2017	2016
Building and improvements	\$ 16,381,396	\$ 16,524,067
Furniture, fixtures and equipment	490,082	374,344
Construction in progress	-	22,674
	<u>16,871,478</u>	<u>16,921,085</u>
Less accumulated depreciation	<u>(10,929,090)</u>	<u>(10,607,698)</u>
	<u>\$ 5,942,388</u>	<u>\$ 6,313,387</u>

Note 5 – Leases

The Museum leases real property located in Balboa Park from the City of San Diego. The lease term is 25 years commencing March 1, 1990 with an option to extend an additional 25 years at the Museum's option, and provides for renegotiation of lease provisions every five years. Renegotiation affects alterations in the terms and conditions of the lease solely to reflect any significant changes which have occurred during the interim period and shall not increase the consideration, terminate the lease, or shorten the term. Consideration for the lease is the Museum's agreement to operate an art museum and related services for the benefit of the general public. No amounts have been reflected in the financial statements for the use of the real property as no objective basis is available to measure the relative value. On September 18, 2014, the option to extend the lease was executed. The new lease expires February 28, 2040 and retains the same terms.

The Museum also leases 4,878 square feet of offsite storage space in Chula Vista, California under a non-cancellable agreement expiring in January 2027. Monthly lease payments for the year ended June 30, 2017 were \$4,707 with certain months abated.

Minimum future lease payments as of June 30, 2017 are due as follows:

Year Ending June 30	
2018	\$ 57,196
2019	58,912
2020	60,679
2021	62,499
2022	64,242
Thereafter	<u>309,965</u>
Total	<u>\$ 613,493</u>

Note 6 – Debt Obligations

The Museum issued \$6,000,000 of variable rate demand certificates of participation through the County of San Diego. The purpose of the issue was to fund the remodeling of the Museum's office facilities and the renovation of the museum building. Payments of principal and interest with respect to the certificates are supported by an irrevocable direct-pay letter of credit issued by Wells Fargo Bank. The average interest rate on the issue was 0.70% and 0.16% at June 30, 2017 and 2016, respectively. The principal is due in full on September 1, 2030. In prior years, the Museum made voluntary early principal payments of \$300,000, resulting in a remaining balance of \$5,700,000 as of June 30, 2017 and 2016. Bond issuance costs and the bond underwriter's discount are capitalized and amortized using the straight-line method over the term of the bonds.

Note 6 – Debt Obligations, continued

The Museum has entered into a \$502,161 loan agreement with San Diego Gas & Electric Company (SDG&E) for the replacement of two large chillers that maintain the temperature and humidity of the galleries. Amounts due to SDG&E were \$384,990 and \$435,206 at June 30, 2017 and 2016, respectively. The loans are payable in monthly installments of \$4,185 with 0% interest through February 2025.

Principal payments on debt obligations at June 30, 2017 are due as follows:

	Year Ending June 30	
2018	\$	50,216
2019		50,216
2020		50,216
2021		50,216
2022		50,216
Thereafter		<u>5,833,910</u>
Total	\$	<u><u>6,084,990</u></u>

Note 7 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Art acquisitions	\$ 97,689	\$ 97,639
Education	72,189	65,617
Exhibits	108,187	449,859
Other special projects	159,623	39,111
Unappropriated endowment earnings	<u>10,850,116</u>	<u>9,617,743</u>
	<u><u>\$ 11,287,804</u></u>	<u><u>\$ 10,269,969</u></u>

Note 8 – Employee Retirement Plan

The Museum sponsors a tax deferred annuity plan (the Plan) that qualifies under Section 403(b) of the Internal Revenue Code and covers substantially all employees. On behalf of each eligible employee, the Plan allows the Museum to contribute 3.5% of compensation. For the years ended June 30, 2017 and 2016, the Museum contributed \$126,146 and \$122,890 respectively.

Note 9 – Endowments

The Museum's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 9 – Endowments, continued

The Board of Trustees of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

At June 30, 2017, the endowment net assets composition by type of fund consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 10,850,116	\$ 9,032,102	\$ 19,882,218
Charitable remainder trust assets to be included in endowment	-	-	865,273	865,273
Board-designated endowment funds	<u>48,457,871</u>	<u>-</u>	<u>-</u>	<u>48,457,871</u>
Total endowment funds	<u>\$ 48,457,871</u>	<u>\$ 10,850,116</u>	<u>\$ 9,897,375</u>	<u>\$ 69,205,362</u>

At June 30, 2016, the endowment net assets composition by type of fund consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 9,617,743	\$ 9,032,102	\$ 18,649,845
Charitable remainder trust assets to be included in endowment	-	-	810,281	810,281
Board-designated endowment funds	<u>45,364,058</u>	<u>-</u>	<u>-</u>	<u>45,364,058</u>
Total endowment funds	<u>\$ 45,364,058</u>	<u>\$ 9,617,743</u>	<u>\$ 9,842,383</u>	<u>\$ 64,824,184</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 9 – Endowments, continued

Changes in endowment net assets for the year ended June 30, 2017 consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 45,364,058	\$ 9,617,743	\$ 9,842,383	\$ 64,824,184
Investment return:				
Investment income	693,892	322,385	-	1,016,277
Investment expenses	(179,157)	(65,777)	-	(244,934)
Net realized and unrealized gains	6,045,591	2,199,561	-	8,245,152
Change in charitable remainder trust assets	-	-	54,992	54,992
Total investment return	6,560,326	2,456,169	54,992	9,071,487
Contributions to endowment funds during the year	5,000	-	-	5,000
Appropriation of endowment assets for art acquisition	(209,120)	-	-	(209,120)
Appropriation of endowment assets for expenditure	(3,262,393)	(1,223,796)	-	(4,486,189)
Endowment net assets, end of year	\$ 48,457,871	\$ 10,850,116	\$ 9,897,375	\$ 69,205,362

Changes in endowment net assets for the year ended June 30, 2016 consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 50,131,878	\$ 9,980,328	\$ 11,540,208	\$ 71,652,414
Investment return:				
Investment income	733,772	2,053,959	-	2,787,731
Investment expenses	(164,666)	(55,178)	-	(219,844)
Net realized and unrealized losses	(2,315,176)	(914,569)	-	(3,229,745)
Change in charitable remainder trust assets	-	-	(1,697,825)	(1,697,825)
Total investment return	(1,746,070)	1,084,212	(1,697,825)	(2,359,683)
Appropriation of endowment assets for expenditure	(3,021,750)	(1,446,797)	-	(4,468,547)
Endowment net assets, end of year	\$ 45,364,058	\$ 9,617,743	\$ 9,842,383	\$ 64,824,184

Note 9 – Endowments, continued

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments and increase the value of the original contributed capital by an amount not less than the annual increase in the Consumer Price Index (CPI). In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (Target Return) over ten years. In achieving the Target Return, the Museum seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

Investment Strategy

The investment strategy of the Museum is to develop a diversified portfolio of investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

Each year, the Museum appropriates a portion of the fair market value of endowment assets for distribution. The portion of the fair market value appropriated for the years ended June 30, 2017 and 2016 was 5.00% each year. Market value, for the purpose of calculating the spending policy, is based on the trailing twenty quarter average of the market value of the endowment assets as of December 31st of each year. The Board of Trustees may, upon recommendation of the Finance Committee, in response to changes in economic circumstances, raise or lower the percentage to be distributed in any given year.

Note 10 – Concentration of Credit Risk

The Museum maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation up to a limit of \$250,000 per financial institution. The Museum maintains cash balances at several banks which, at times, exceed the federal insurable limit. As of June 30, 2017, \$54,143 of the Museum's cash balances were uninsured.

Note 11 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SUPPLEMENTAL INFORMATION

SAN DIEGO MUSEUM OF ART
Schedule of Contributions
Years Ended June 30, 2017 and 2016

June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundations	\$ 265,253	\$ 70,000	\$ -	\$ 335,253
Trustee support	229,305	95,715	-	325,020
Corporate support	179,623	30,000	-	209,623
Individual gifts	150,579	54,305	-	204,884
Contribution box	1,677	-	-	1,677
	<u>\$ 826,437</u>	<u>\$ 250,020</u>	<u>\$ -</u>	<u>\$ 1,076,457</u>
June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundations	\$ 234,025	\$ 400,000	\$ -	\$ 634,025
Trustee support	142,486	98,000	-	240,486
Corporate support	535,298	10,500	-	545,798
Individual gifts	268,866	78,823	-	347,689
Contribution box	2,129	-	-	2,129
	<u>\$ 1,182,804</u>	<u>\$ 587,323</u>	<u>\$ -</u>	<u>\$ 1,770,127</u>