

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

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FINANCIAL STATEMENTS

Year Ended June 30, 2013 with Comparative Totals  
for the Year Ended June 30, 2012

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

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**EMERITUS**

Alexander W. Berger (1916-2005)  
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
San Jose Museum of Art Association  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited the accompanying financial statements of San Jose Museum of Art Association (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Jose Museum of Art Association as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited San Jose Museum of Art Association's financial statements for the year ended June 30, 2012, and our report dated October 24, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Berger Lewis Accountancy Corporation*

BERGER LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
October 21, 2013

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2013 with Comparative Totals as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	
				2013	2012
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 614,417	\$ 489,278	\$ -	\$ 1,103,695	\$ 1,524,171
Accounts Receivable	54,835	6,259	-	61,094	39,457
Contributions Receivable	48,907	2,057,697	568,969	2,675,573	1,490,572
Museum Store Inventory	86,116	-	-	86,116	79,894
Note Receivable - Related Party	250,000	-	-	250,000	250,000
Deferred Exhibition Costs and Prepays	57,658	-	-	57,658	84,853
Investments	59,945	1,862,100	6,728,291	8,650,336	7,338,780
Property and Equipment, Net	33,097	-	-	33,097	64,793
Beneficial Interest in Perpetual Trust	-	-	930,117	930,117	930,117
<b>TOTAL ASSETS</b>	<b>\$ 1,204,975</b>	<b>\$ 4,415,334</b>	<b>\$ 8,227,377</b>	<b>\$ 13,847,686</b>	<b>\$ 11,802,637</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts Payable	\$ 79,788	\$ -	\$ -	\$ 79,788	\$ 68,298
Accrued Liabilities	210,521	-	-	210,521	211,973
Unearned Revenue	70,534	-	-	70,534	88,826
Total Liabilities	360,843	-	-	360,843	369,097
<b>NET ASSETS:</b>					
Unrestricted Net Assets	844,132	-	-	844,132	595,214
Temporarily Restricted Net Assets	-	4,415,334	-	4,415,334	2,631,187
Permanently Restricted Net Assets	-	-	8,227,377	8,227,377	8,207,139
Total Net Assets	844,132	4,415,334	8,227,377	13,486,843	11,433,540
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,204,975</b>	<b>\$ 4,415,334</b>	<b>\$ 8,227,377</b>	<b>\$ 13,847,686</b>	<b>\$ 11,802,637</b>

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	TOTAL
<b>OPERATING SUPPORT AND REVENUE:</b>					
Contributions	\$ 1,262,753	\$ 2,603,277	\$ -	\$ 3,866,030	\$ 2,602,102
Other In-Kind Support	556,338	-	-	556,338	614,350
Public Programs	313,193	-	-	313,193	288,371
Membership Dues	197,790	-	-	197,790	203,064
Museum Store	205,821	-	-	205,821	198,519
Event Rental Income	87,675	-	-	87,675	134,035
Other Revenue	143,192	-	-	143,192	83,985
Special Event Revenue	261,128	-	-	261,128	240,515
Less: Direct Expenses	(91,148)	-	-	(91,148)	(86,000)
Art Class Contracts and Tuition	20,260	-	-	20,260	54,148
	<u>2,957,002</u>	<u>2,603,277</u>	<u>-</u>	<u>5,560,279</u>	<u>4,333,089</u>
In-Kind Rent	<u>1,217,969</u>	<u>-</u>	<u>-</u>	<u>1,217,969</u>	<u>1,217,969</u>
Total Operating Support and Revenue	4,174,971	2,603,277	-	6,778,248	5,551,058
Net Assets Released from Restrictions - Operations	<u>1,530,635</u>	<u>(1,530,635)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Support, Revenue and Net Assets Released from Restrictions	<u>5,705,606</u>	<u>1,072,642</u>	<u>-</u>	<u>6,778,248</u>	<u>5,551,058</u>
<b>OPERATING EXPENSES:</b>					
Program Services:					
Exhibitions	2,604,244	-	-	2,604,244	2,376,634
Education	955,323	-	-	955,323	900,128
Museum Store	<u>377,272</u>	<u>-</u>	<u>-</u>	<u>377,272</u>	<u>376,909</u>
Total Program Services	<u>3,936,839</u>	<u>-</u>	<u>-</u>	<u>3,936,839</u>	<u>3,653,671</u>
Supporting Services:					
Management and General	835,986	-	-	835,986	948,533
Fundraising	<u>551,989</u>	<u>-</u>	<u>-</u>	<u>551,989</u>	<u>494,637</u>
Total Supporting Services	<u>1,387,975</u>	<u>-</u>	<u>-</u>	<u>1,387,975</u>	<u>1,443,170</u>
Total Operating Expenses	<u>5,324,814</u>	<u>-</u>	<u>-</u>	<u>5,324,814</u>	<u>5,096,841</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>380,792</u>	<u>1,072,642</u>	<u>-</u>	<u>1,453,434</u>	<u>454,217</u>
<b>NONOPERATING ACTIVITIES:</b>					
Endowment Investment Income, Net	-	745,028	-	745,028	10,910
Endowment Contributions	-	-	20,238	20,238	24,960
Contributions for Art Collection Items	-	230,550	-	230,550	103,706
General Investment Income, Net	4,217	-	-	4,217	4,507
Net Assets Released from Restrictions - Art					
Acquisitions	368,382	(368,382)	-	-	-
Interfund Interest Income (Expense)	(104,309)	104,309	-	-	-
Purchased Art Collection Items	(368,468)	-	-	(368,468)	(41,341)
Depreciation and Amortization	(31,696)	-	-	(31,696)	(35,338)
Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(111)</u>
Total Nonoperating Activities	<u>(131,874)</u>	<u>711,505</u>	<u>20,238</u>	<u>599,869</u>	<u>67,293</u>
<b>CHANGE IN NET ASSETS</b>	248,918	1,784,147	20,238	2,053,303	521,510
<b>NET ASSETS, Beginning of Year</b>	<u>595,214</u>	<u>2,631,187</u>	<u>8,207,139</u>	<u>11,433,540</u>	<u>10,912,030</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 844,132</u>	<u>\$ 4,415,334</u>	<u>\$ 8,227,377</u>	<u>\$ 13,486,843</u>	<u>\$ 11,433,540</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL	
	Exhibitions	Education	Museum Store	Total	Management and General	Fundraising	Total	2013	2012
<b>OPERATING EXPENSES:</b>									
Salaries and Wages	\$ 886,976	\$ 388,055	\$ 111,055	\$ 1,386,086	\$ 275,640	\$ 244,935	\$ 520,575	\$ 1,906,661	\$ 1,699,739
Payroll Taxes and Benefits	150,652	63,436	17,951	232,039	26,696	50,366	77,062	309,101	259,315
Total Salaries and Related Expenses	1,037,628	451,491	129,006	1,618,125	302,336	295,301	597,637	2,215,762	1,959,054
In-Kind Rent	788,133	147,445	100,191	1,035,769	91,100	91,100	182,200	1,217,969	1,217,969
In-Kind Support Expense	39,511	18,246	62	57,819	248,560	52,824	301,384	359,203	420,274
Outside Services and Security	244,217	21,430	39	265,686	39,200	23,571	62,771	328,457	444,066
Volunteer Services	-	172,697	24,438	197,135	-	-	-	197,135	194,076
Shipping and Storage	140,766	73	45	140,884	4,400	31	4,431	145,315	100,766
Cost of Goods Sold	-	-	109,791	109,791	-	-	-	109,791	105,470
Exhibition Costs	108,952	-	-	108,952	-	-	-	108,952	78,850
Travel	24,078	53,100	712	77,890	19,316	162	19,478	97,368	93,470
Marketing	78,701	73	-	78,774	3,773	209	3,982	82,756	67,045
Catering	15	35,460	-	35,475	138	20,259	20,397	55,872	45,758
Insurance	48,221	1,861	1,264	51,346	1,150	2,300	2,300	53,646	39,399
Telephone and Utilities	15,929	5,075	1,690	22,694	17,635	10,162	27,797	50,491	59,210
Office Supplies	6,979	6,474	2,764	16,217	26,672	6,765	33,437	49,654	35,303
Materials	26,145	22,017	-	48,162	135	150	285	48,447	31,784
Miscellaneous	5,981	5,269	895	12,145	15,012	13,894	28,906	41,051	31,156
Legal and Accounting	-	-	-	-	38,283	-	38,283	38,283	38,000
Printing and Web Design	12,132	10,328	-	22,460	1,979	13,236	15,215	37,675	29,888
Bank Charges	6,380	2,025	5,935	14,340	2,814	14,616	17,430	31,770	35,793
Equipment Expenses	12,985	383	325	13,693	15,866	734	16,600	30,293	38,704
Postage	3,598	1,592	7	5,197	1,667	6,978	8,645	13,842	13,781
Recruiting	-	284	-	284	5,950	345	6,295	6,579	15,413
Conservation	3,818	-	-	3,818	-	-	-	3,818	663
Meetings and Lunches	75	-	108	183	-	502	502	685	949
Total Operating Expenses	2,604,244	955,323	377,272	3,936,839	835,986	551,989	1,387,975	5,324,814	5,096,841
<b>NONOPERATING EXPENSES:</b>									
Purchased Art Collection Items	368,468	-	-	368,468	-	-	-	368,468	41,341
Depreciation and Amortization	15,848	9,509	3,170	28,527	1,584	1,585	3,169	31,696	35,338
Interest Expense	-	-	-	-	-	-	-	-	111
Total Functional Expenses	\$ 2,988,560	\$ 964,832	\$ 380,442	\$ 4,333,834	\$ 837,570	\$ 553,574	\$ 1,391,144	\$ 5,724,978	\$ 5,173,631
Percentage of Total	52.2 %	16.9 %	6.6 %	75.7 %	14.6 %	9.7 %	24.3 %	100.0 %	
Total Functional Expenses	\$ 2,988,560	\$ 964,832	\$ 380,442	\$ 4,333,834	\$ 837,570	\$ 553,574	\$ 1,391,144	\$ 5,724,978	\$ 5,173,631
Nonrecurring Pro Bono Professional Services Excluded	-	-	-	-	217,278	-	217,278	217,278	260,000
Total Functional Expenses Excluding Non-recurring Pro Bono	\$ 2,988,560	\$ 964,832	\$ 380,442	\$ 4,333,834	\$ 620,292	\$ 553,574	\$ 1,173,866	\$ 5,507,700	\$ 4,913,631
Percentage of Total	54.3 %	17.5 %	6.9 %	78.7 %	11.3 %	10.0 %	21.3 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 2,053,303	\$ 521,510
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	31,696	35,338
Net Realized Gain on Sale of Investments	(136,076)	(22,944)
Net Unrealized (Gain) Loss on Investments	(297,298)	206,810
Contributions Restricted for Long-Term Purposes	(200,000)	(200,000)
(Increase) Decrease in Assets:		
Accounts Receivable	(21,637)	(20,223)
Contributions Receivable	(1,185,001)	142,332
Museum Store Inventory	(6,222)	598
Deferred Exhibition Costs and Prepaids	27,195	(32,264)
Increase (Decrease) in Liabilities:		
Accounts Payable	11,490	(16,293)
Accrued Liabilities	(1,452)	(38,976)
Unearned Revenue	(18,292)	(16,024)
Net Cash Provided by Operating Activities	257,706	559,864
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale or Maturity of Investments	1,805,953	985,143
Purchase of Investments	(2,684,135)	(1,211,030)
Net Cash Used by Investing Activities	(878,182)	(225,887)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Contributions Restricted for Long-Term Purposes	200,000	200,000
Repayment of Borrowings	-	(6,264)
Net Cash Provided by Financing Activities	200,000	193,736
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(420,476)	527,713
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	1,524,171	996,458
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 1,103,695	\$ 1,524,171
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash Paid for Interest	\$ -	\$ 154

The Accompanying Notes are an Integral Part of these Financial Statements.



SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ORGANIZATION:

San Jose Museum of Art Association (the "Museum" or "SJMA") is a California nonprofit public benefit corporation incorporated in 1969. The San Jose Museum of Art reflects the diverse cultures and innovative spirit of Silicon Valley. Through its exhibitions, educational programs, scholarship, and collections, SJMA connects the present and the past and the art of the West Coast and the world. The Museum fosters awareness of artists' broad contributions to society: it engages audiences with the art of our time and the vitality of the creative process. SJMA also owns and operates a store located in the museum.

The Museum's operations receive support from the City of San Jose through a facility subsidy, a program grant, and its donation of in-kind rent.

NOTE 2 - PROGRAM SERVICES:

Exhibitions

The San Jose Museum of Art is a leading showcase in the Bay Area for modern and contemporary art. The Museum has earned a reputation for its fresh, distinctive exhibitions, which are conceived to engage Museum visitors of various ages and cultural backgrounds. Through its exhibitions and programs, SJMA addresses major trends in international contemporary art, architecture, and design, with an ongoing commitment to also place the work of emerging artists based in California in national and international context. The Museum strives to make significant contributions to art-historical scholarship; address prescient issues of interest to the general public; and offer programs that reflect the rich diversity of its communities. The Museum presents nine to twelve exhibitions each year, including one-person and thematic group exhibitions that include a range of artworks, from traditional painting to exploratory new-media installations. The curatorial staff organizes most of the exhibitions in a given season. In-house exhibitions are frequently accompanied by scholarly publications or websites and regularly travel to other museums across the country. Given its location in the heart of the high-technology culture of Silicon Valley, the Museum has a substantial commitment to new work in new media, as well as to initiating special projects and commissions that reflect the issues of importance to its communities.

Education

The Museum Experience and Education Department is dedicated to providing enriching visual art experiences to a broad spectrum of the community. The department is widely known for its commitment to accessibility; hands-on family activity stations in the galleries; and award-winning high-tech interpretation. SJMA has been recognized by two "MUSE" awards from the American Association of Museums for its use of interactive, tech-based activities in the galleries and on the Web, e.g. YouTube, Flickr, Facebook, podcasts, digital timelines, and iPod Touch tours. SJMA is the largest provider of arts education in the schools in greater Santa Clara County. SJMA is dedicated to furthering online learning and to opening 21st-century doorways to art. The Museum pioneers dynamic new ways of providing historical context and of amplifying audiences' experiences. The Museum proudly offers a spectrum of educational programming that provides critical early exposure to the visual arts for tens of thousands of students in grades kindergarten through twelve, from tours to workshops, in-class presentations, and curriculum guides. In the year ended June 30, 2013, SJMA aligned new pilot K-12 programs with the national movement toward integrated arts learning and Common Core Curriculum.

SAN JOSE MUSEUM OF ART ASSOCIATION  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 2 - PROGRAM SERVICES (Continued):

The Museum serves over 37,000 young people annually. Youth participate in over 50,000 hands-on experiences as well as lectures, symposia, and educator-led tours (often paired with hands-on art activities). An in-school art docent program teaches visual thinking skills. SJMA also offers sequential in-school art-making workshops (often combined with museum tours); professional development opportunities for teachers; free family-oriented Community Days with hands-on activities and a variety of performances; Kids Summer Art Camp, week-long adventures into art making that are linked to current exhibitions; and programs with artists that give the public close access to the creative process. In addition, adult programs include after-hours events that make the Museum a social hub downtown.

SJMA's website enables smooth delivery of information; participatory educational material and curatorial projects; and the integration of an active social media presence. A two-year project to provide web-based access to the collection will launch in the fall of 2013.

Museum Store

The Museum Store is located off the main lobby of SJMA. This gift and book store carries mission-related products that are educational, foster creativity, and encourage the appreciation of art. The Museum Store also features custom products by area artists and craftsmen as well as merchandise relevant to the current season of exhibitions. The store is staffed by Museum employees as well as by an active contingent of longtime volunteers.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of San Jose Museum of Art Association have been prepared on the accrual basis of accounting.

Basis of Presentation - In accordance with generally accepted accounting principles, the Museum reports its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Trustees has discretionary control in carrying out the operations of the Museum. Under this category, the Museum maintains an operating fund, plus any net assets designated by the Board for specific purposes.

Temporarily restricted net assets include contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

SAN JOSE MUSEUM OF ART ASSOCIATION  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The Museum maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Museum has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Museum Store Inventory - Museum store inventory is valued at the lower of cost (first-in, first-out) or market and consists primarily of books and other education and exhibition-related items held for sale.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets. When donor restrictions are met (either by passage of time or by use), temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Fair Value Measurements - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

SAN JOSE MUSEUM OF ART ASSOCIATION  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Museum's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Permanent Art Collection - The collection consists of twentieth and twenty-first century artwork, including paintings, sculptures, installations, new media, photography, drawings and prints, acquired through purchase or contribution. The collection is not recognized as an asset in the statement of financial position. Each work of art is inventoried and cared for, and activities verifying the collection's integrity are performed continuously. Purchases of art are recorded as non-operating decreases in the unrestricted net assets in the year in which items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from any deaccessions or insurance recoveries are required to be used to acquire other works of art.

Accounts and Contributions Receivable - The Museum considers all accounts and contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Purchases of individual items of property and equipment with a cost greater than \$3,000 are capitalized. In addition, items with individual costs exceeding \$2,500 with a total invoice cost of \$8,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 10 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Impairment of Long-Lived Assets - The Museum reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2013 and 2012 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2013 and 2012, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2013 and 2012 was \$102,081 and \$94,288, respectively.

Revenue Recognition - The Museum recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Unearned Revenue - Membership dues received in advance are deferred and recognized as revenue over the periods to which the dues relate. Unearned revenue also includes amounts received for exhibits and events that will be presented in a future period.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

In-Kind Rent and Donated Services - In-kind rent is valued based on current prevailing downtown San Jose rent rates. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Museum would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The estimated value of in-kind rent and donated services is disclosed in Note 15.

Allocation of Indirect Functional Expenses - Indirect functional expenses are allocated to program and supporting services based on an analysis of salary dollars, headcount and space utilized.

Income Taxes - San Jose Museum of Art Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Income Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Museum in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Museum files information returns in the U.S. federal jurisdiction and state of California. The Museum's federal returns for the years ended June 30, 2010 and beyond remain subject to possible examination by the Internal Revenue Service. The Museum's California returns of the tax years ended June 30, 2009 and beyond remain subject to possible examination by the Franchise Tax Board.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2013 and 2012 was \$71,701 and \$54,889, respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to June 30, 2013 for potential recognition or disclosure in the financial statements. The Museum did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2013. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 21, 2013.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Endowment Campaign	\$ 600,000	\$ 800,000
Programs and Other	<u>2,228,257</u>	<u>752,095</u>
	2,828,257	1,552,095
Less: Discounts to Net Present Value	<u>(152,684)</u>	<u>(61,523)</u>
Total Contributions Receivable	<u>\$ 2,675,573</u>	<u>\$ 1,490,572</u>

As of June 30, 2013, \$898,257 of the contributions receivable is expected to be collected in less than one year and \$1,930,000 is expected to be collected in one to five years. The Museum periodically evaluates the collectibility of its contributions receivable based on historical experience. Uncollectible contributions are expected to be insignificant; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2013 and 2012.

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as contributions receivable and support in the appropriate net asset category. For promises expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the promise as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2013 ranged between 2.1% and 2.9%.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 5 - NOTE RECEIVABLE - RELATED PARTY:

In November 2009 the Museum received a secured note receivable from an officer of the Museum in the amount of \$250,000 for the purpose of purchasing a primary residence within the San Jose, California Metropolitan area. The note bears a fixed interest rate of 1.5%, but for income reporting purposes, the interest benefit is computed and reported to the Internal Revenue Service as part of the officer's benefit package. The note matures at the earlier of the date which is (i) six months after the effective date of the termination of the officer's employment by the Museum, or (ii) the date on which the officer ceases to use the primary residence as her principal or primary residence, or (iii) the date on which the officer closes escrow on a sale or otherwise effects a transfer or conveyance of the primary residence. Interest receivable on the note was \$13,500 and \$9,750 as of June 30, 2013 and 2012, respectively. Interest earned on the note was \$3,750 for each of the years ended June 30, 2013 and 2012.

NOTE 6 - INVESTMENTS:

All of the following investments are classified as Level 1 investments (see Note 3). The fair value of investments as of June 30, was as follows:

	2013	2012
Unrestricted:		
Debt Securities	\$ 59,945	\$ 59,916
Temporarily Restricted:		
Endowment Accumulated Earnings - Unappropriated	1,862,100	1,403,018
Permanently Restricted:		
Mutual Funds	7,075,215	6,038,794
Fixed Income Securities	897,327	523,699
Equity Securities	617,849	716,371
Less: Endowment Accumulated Earnings - Unappropriated	(1,862,100)	(1,403,018)
Total Permanently Restricted	6,728,291	5,875,846
Total Investments at Fair Value	\$ 8,650,336	\$ 7,338,780
	2013	2012
Net Investment Income :		
Net Realized and Unrealized Gain (Loss)	\$ 433,374	\$ (183,866)
Interest and Dividends	255,577	199,283
Distribution from Beneficial Interest in Perpetual Trust	60,294	-
Total Net Investment Income	\$ 749,245	\$ 15,417

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment at June 30, consisted of the following:

	<u>2013</u>	<u>2012</u>
Computer and Media Equipment	\$ 745,768	\$ 745,768
Leasehold Improvements	613,310	613,310
Software	190,216	190,216
Furniture and Fixtures	<u>161,002</u>	<u>161,002</u>
	1,710,296	1,710,296
Less: Accumulated Depreciation and Amortization	<u>(1,677,199)</u>	<u>(1,645,503)</u>
Property and Equipment, Net	<u>\$ 33,097</u>	<u>\$ 64,793</u>

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was \$31,696 and \$35,338, respectively.

NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUST:

In 1997, the Museum received a conditional promise to give from a foundation in the form of a challenge grant towards the Museum's endowment campaign. Under the challenge grant, the Museum was to receive the rights to future earnings on funds contributed by the foundation to an independent trustee. The trustee's responsibilities are to hold and invest the funds in perpetuity and pay the Museum a percentage of the annual income, on a total revenue basis, earned on the donated amount. In December 2002, the foundation notified the Museum that the campaign goal was met.

As of June 30, 2013, the Museum has recognized \$930,117 in permanently restricted net assets, representing the present value of the estimated future earnings to be received on the funds held by the trustee. The Museum's interest in the trust is classified as a Level 3 asset (see Note 3). The present value of estimated future earnings was determined using an average rate of return, net of trustee fees of 4% and discount rates of 3% to 6%. The valuation has not changed from year to year and the balance has been consistently reported at \$930,117.

NOTE 9 - LINE OF CREDIT:

The Museum has a \$500,000 unsecured line of credit with Focus Bank (previously Bank of the West). The line is due on February 7, 2014. Payments of interest at the bank's prime rate plus 0.5% per annum with an interest rate floor of 3.75% per annum are due monthly. The agreement provides for various financial and non-financial covenants. The amount available under this line of credit at June 30, 2013 was \$500,000. As of June 30, 2013 and 2012 the amount outstanding was \$0.



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NOTES TO FINANCIAL STATEMENTS  
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NOTE 10 - EMPLOYEE BENEFIT PLANS:

The Museum makes contributions to a defined contribution 403(b) retirement plan for employees who have completed one year of service, and who have worked at least 1,000 hours during that year. Pension expense for the years ended June 30, 2013 and 2012 was \$45,445 and \$44,028, respectively.

The Museum had an incentive compensation plan covering certain key employees, which was replaced by the defined contribution 403(b) plan. Annual contributions to the plan were determined by the Executive Committee of the Board of Trustees. Accrued liabilities were \$59,945 and \$59,916 at June 30, 2013 and 2012, respectively representing the fully vested benefits for the one employee covered under the plan.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

The Museum's temporarily restricted net assets at June 30, consisted of the following:

	<u>2013</u>	<u>2012</u>
Exhibitions and Education Programs	\$ 2,113,474	\$ 850,559
Endowment Accumulated Earnings - Unappropriated	1,934,789	1,492,915
Time Restriction	150,000	-
Gala	131,396	63,900
Art Acquisitions	77,862	215,693
Director's Fund	<u>7,813</u>	<u>8,120</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,415,334</u>	<u>\$ 2,631,187</u>

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS:

The Museum's permanently restricted net assets at June 30, consisted of the following:

	<u>2013</u>	<u>2012</u>
Endowment Funds	\$ 7,297,260	\$ 7,277,022
Beneficial Interest in Perpetual Trust	<u>930,117</u>	<u>930,117</u>
Total Permanently Restricted Net Assets	<u>\$ 8,227,377</u>	<u>\$ 8,207,139</u>

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2013</u>
Temporary Restricted Net Assets Released from Restrictions - Operations:	
Exhibitions and Education Programs	\$ 1,023,865
Endowment Appropriations for Operations	407,463
Gala	99,000
Director's Fund	<u>307</u>
Total Temporarily Restricted Net Assets Released from Restrictions - Operations	<u>1,530,635</u>
Temporarily Restricted Net Assets Released from Restrictions - Nonoperating:	
Art Acquisitions	<u>368,382</u>
Total Temporarily Restricted Net Assets Released from Restrictions	<u>\$ 1,899,017</u>

NOTE 14 - ENDOWMENT:

San Jose Museum of Art Association's endowment consists of two individual funds (see Note 12). Its endowment includes donor-restricted endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of San Jose Museum of Art Association has interpreted the California version of 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, San Jose Museum of Art Association 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 consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of 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

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 14 - ENDOWMENT (Continued):

- (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

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the permanently restricted net assets balance. There were no deficiencies of this nature that would be required to be reported in unrestricted net assets as of June 30, 2013 and 2012.

Investment Return Objectives, Risk Parameters and Strategies - The primary objectives of the Fund are to support the operations of the Museum over time, while preserving the Fund's inflation-adjusted asset value. The current investment goals are to achieve average long-term total returns on assets (net of fees) that are at least 5.5% greater than the current annual inflation rate (as measured by the Consumer Price Index for All Urban Consumers, Not Seasonally Adjusted, or if that Index is discontinued, the most similar then existing Index), at acceptable risk levels.

A portfolio such as this, with a long-term investment time horizon, should hold a larger percentage of its assets in high-quality equities than in fixed-income securities. The short-term volatility of the return from stocks dictates that a percentage of the assets are invested in fixed-income securities and alternative investments that have low correlations with performance of equities, to provide an element of stability to the portfolio's return.

Performance of the investment strategy is monitored by comparing returns to a properly weighted, blended benchmark. Appropriate benchmark indices for evaluation of investment performance shall be selected in consultation with the Fund's investment manager(s). Current benchmarks are: domestic large-cap, S&P500; domestic mid-cap, S&P400; domestic small cap, S&P600; international equities, MSCI World x U.S.; fixed income, Barclay's Bond Index; cash equivalents, and 3-month US Treasury Bill.

The Board understands that in order to seek to achieve the Fund's investment objectives, it must allocate Fund assets to diverse asset classes. Furthermore, the Board understands that, in general, assets with the highest potential for investment returns also have the highest investment risk.

Spending Policy - San Jose Museum of Art Association shall maintain records of the initial contributed value of endowment gifts, and shall not expend any portion of the initial contributed value of any endowment gift subject to these Policies.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 14 - ENDOWMENT (Continued):

The Museum may expend any portion of the net income and/or growth in asset value of an endowment gift, which exceeds its initial contributed value, in such amounts as the Board determines. The Board of Trustees can at its discretion approve distributions from the Fund to support the operations of the Museum up to the amount of 5% of the Fund's principal balance per year if: a) such distributions do not conflict with the intent of any donors; and (b) such distributions do not result in a decline in the initial contributed value balance of the Fund. Only under exceptional circumstances should distributions greater than 5% be considered. Any such larger distributions must (a) meet the same guidelines outlined above, and (b) must also be approved by the full Board. The current distribution policy is to budget distributions for a new fiscal year at no more than 5% of the rolling-average for the eight quarters prior to the end of the previous calendar year.

Endowment net asset composition by type of fund as of June 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 1,934,789	\$ 8,227,377	\$ 10,162,166

Changes in endowment net assets for the fiscal year ended June 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 1,492,915	\$ 8,207,139	\$ 9,700,054
Contributions (Amortization of Present Value Discount)	-	-	20,238	20,238
Distribution from Beneficial Interest in Perpetual Trust	-	60,294	-	60,294
Amount Appropriated for Expenditure	-	(407,463)	-	(407,463)
Interest and Dividends	-	251,360	-	251,360
Interfund Interest Income	-	104,309	-	104,309
Net Realized Gain	-	136,076	-	136,076
Net Unrealized Gain	-	297,298	-	297,298
Endowment Net Assets, End of Year	\$ -	\$ 1,934,789	\$ 8,227,377	\$ 10,162,166

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 14 - ENDOWMENT (Continued):

Endowment net asset composition by type of fund as of June 30, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 1,492,915	\$ 8,207,139	\$ 9,700,054

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 1,482,005	\$ 8,182,179	\$ 9,664,184
Contributions (Amortization of Present Value Discount)	-	-	24,960	24,960
Interest and Dividends	-	194,776	-	194,776
Net Realized Gain	-	22,944	-	22,944
Net Unrealized Loss	-	(206,810)	-	(206,810)
Endowment Net Assets, End of Year	\$ -	\$ 1,492,915	\$ 8,207,139	\$ 9,700,054

NOTE 15 - IN-KIND RENT AND OTHER IN-KIND SUPPORT:

The City of San Jose provides facilities for the museum, museum store and administrative offices at no charge to the Museum. The estimated fair value of rent for these facilities of \$1,217,969 has been determined by an independent real estate professional and is recorded as support and expenses in the statement of activities for the years ended June 30, 2013 and 2012, respectively.

Donated services are recognized as contributions at their fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise be purchased by the Museum if not provided by donations. Donated services of \$531,903 and \$577,482 have been recognized as in-kind support in the statement of activities for the years ended June 30, 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - IN-KIND RENT AND OTHER IN-KIND SUPPORT (Continued):

In addition, a substantial number of corporations and individual volunteers have donated significant amounts of time and performed a variety of tasks related to the Museum's program operations and fundraising campaigns, which do not meet the criteria for recognition as donated services. Accordingly, no amounts have been recognized for these services in the accompanying financial statements.

During the years ended June 30, the following in-kind contributions were received by the Museum:

	<u>2013</u>	<u>2012</u>
In-Kind Rent	<u>\$ 1,217,969</u>	<u>\$ 1,217,969</u>
Other In-Kind Support:		
Volunteer Services	197,135	194,076
Donated Services	334,768	383,406
Equipment and Software	1,600	28,147
Beverages for Receptions	22,835	8,541
Other	<u>-</u>	<u>180</u>
Total Other In-Kind Support	<u>556,338</u>	<u>614,350</u>
Total Contributions In-Kind	<u>\$ 1,774,307</u>	<u>\$ 1,832,319</u>

NOTE 16 - CONCENTRATIONS:

The Museum had contributions receivable from Board members totaling \$2,576,820 and \$1,206,360 at June 30, 2013 and 2012, respectively. Contribution support for the years ended June 30, 2013 and 2012 included \$2,443,554 and \$685,510, respectively received from Board members.

NOTE 17 - LITIGATION:

During the year ended June 30, 2012 the San Jose Museum of Art Association was named in a lawsuit seeking damages in conjunction with a cancellation of an exhibition. The Museum has engaged legal counsel and intends to vigorously defend against the claim. Management believes that the lawsuit is completely without merit, and no liability has been recorded by the Museum as a result. Nonrecurring Pro Bono Professional Services on the statement of functional expenses for the years ended June 30, 2013 and 2012 include \$217,278 and \$210,000, respectively of legal services provided by a board member's law firm for the ongoing litigation.