

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

FINANCIAL STATEMENTS

Year Ended June 30, 2009 with Comparative Totals
for the Year Ended June 30, 2008

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

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-20

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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 statement of financial position of San Jose Museum of Art Association (a California nonprofit public benefit corporation) as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's financial statements for the year ended June 30, 2008 and was audited by other auditors whose report dated February 18, 2009 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Berger Lewis Accountancy Corporation".

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
January 19, 2010

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

STATEMENT OF FINANCIAL POSITION

June 30, 2009 with Comparative Totals as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	
				2009	2008
ASSETS:					
Cash and Cash Equivalents	\$ 48,891	\$ 274,481	\$ 2,043,780	\$ 2,367,152	\$ 1,985,356
Accounts Receivable	35,610	-	-	35,610	22,533
Interfund Receivables and Payables	(638,567)	8,035	630,532	-	-
Contributions Receivable	562,600	384,400	300,000	1,247,000	919,000
Museum Store Inventory	120,240	-	-	120,240	136,223
Prepaid Expense	13,216	-	-	13,216	16,090
Deferred Exhibition Costs	25,633	-	-	25,633	25,000
Investments	40,410	-	3,414,097	3,454,507	4,840,886
Property and Equipment, Net	234,078	-	-	234,078	228,240
Beneficial Interest in Perpetual Trust	-	-	930,117	930,117	930,117
TOTAL ASSETS	\$ 442,111	\$ 666,916	\$ 7,318,526	\$ 8,427,553	\$ 9,103,445
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Line of Credit	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ 450,000
Accounts Payable	103,312	-	-	103,312	257,423
Accrued Liabilities	266,826	-	-	266,826	204,641
Unearned Revenue	35,562	-	-	35,562	141,695
Notes Payable	381,322	-	-	381,322	43,850
Total Liabilities	887,022	-	-	887,022	1,097,609
NET ASSETS:					
Unrestricted Net Assets:					
General Activities	(228,391)	-	-	(228,391)	(28,796)
Endowment Investment Activities	(216,520)	-	-	(216,520)	535,707
Total Unrestricted Net Assets	(444,911)	-	-	(444,911)	506,911
Temporarily Restricted Net Assets		666,916		666,916	180,399
Permanently Restricted Net Assets			7,318,526	7,318,526	7,318,526
Total Net Assets	(444,911)	666,916	7,318,526	7,540,531	8,005,836
TOTAL LIABILITIES AND NET ASSETS	\$ 442,111	\$ 666,916	\$ 7,318,526	\$ 8,427,553	\$ 9,103,445

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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	2009					2008	
	Unrestricted			Temporarily	Permanently	TOTAL	TOTAL
	General Activities	Endowment Investment Activities	Total	Restricted	Restricted		
SUPPORT AND REVENUE:							
Contributions	\$ 1,812,209	\$ -	\$ 1,812,209	\$ 1,469,168	\$ -	\$ 3,281,377	\$ 3,042,151
Other In-Kind Support	319,883	-	319,883	-	-	319,883	299,525
Membership Dues	229,541	-	229,541	-	-	229,541	257,627
Museum Store	249,064	-	249,064	-	-	249,064	363,194
Event Rental Income	188,421	-	188,421	-	-	188,421	307,012
Art Class Contracts and Tuition	49,704	-	49,704	-	-	49,704	54,890
Public Programs	245,327	-	245,327	-	-	245,327	259,971
Other Revenue	99,868	-	99,868	-	-	99,868	133,849
	3,194,017	-	3,194,017	1,469,168	-	4,663,185	4,718,219
In-Kind Rent	1,638,001	-	1,638,001	-	-	1,638,001	2,059,200
Total Support and Revenue	4,832,018	-	4,832,018	1,469,168	-	6,301,186	6,777,419
Net Assets Released from Restrictions	982,651	-	982,651	(982,651)	-	-	-
Total Support, Revenue and Net Assets Released from Restrictions	5,814,669	-	5,814,669	486,517	-	6,301,186	6,777,419
OPERATING EXPENSES:							
Program Services:							
Exhibitions	2,682,248	-	2,682,248	-	-	2,682,248	2,974,623
Education	1,272,514	-	1,272,514	-	-	1,272,514	1,795,176
Museum Store	447,437	-	447,437	-	-	447,437	412,183
Total Program Services	4,402,199	-	4,402,199	-	-	4,402,199	5,181,982
Supporting Services:							
Management and General	797,274	-	797,274	-	-	797,274	1,328,900
Fundraising	674,595	-	674,595	-	-	674,595	560,288
Total Supporting Services	1,471,869	-	1,471,869	-	-	1,471,869	1,889,188
Total Operating Expenses	5,874,068	-	5,874,068	-	-	5,874,068	7,071,170
CHANGE IN NET ASSETS FROM OPERATIONS	(59,399)	-	(59,399)	486,517	-	427,118	(293,751)
NONOPERATING ACTIVITIES:							
Purchased Art Collection Items	(94,000)	-	(94,000)	-	-	(94,000)	(224,623)
Depreciation and Amortization	(56,229)	-	(56,229)	-	-	(56,229)	(139,147)
General Investment Income, Net	16,448	-	16,448	-	-	16,448	-
Endowment Investment Loss, Net	-	(216,520)	(216,520)	(535,707)	-	(752,227)	(229,430)
Impairment of Construction in Progress	-	-	-	-	-	-	(393,453)
Interest Expense	(6,415)	-	(6,415)	-	-	(6,415)	(25,528)
Total Nonoperating Activities	(140,196)	(216,520)	(356,716)	(535,707)	-	(892,423)	(1,012,181)
CHANGE IN NET ASSETS	(199,595)	(216,520)	(416,115)	(49,190)	-	(465,305)	(1,305,932)
NET ASSETS, Beginning of Year	(28,796)	535,707	506,911	180,399	7,318,526	8,005,836	9,311,768
Net Assets Reclassification Based on Change in Law	-	(535,707)	(535,707)	535,707	-	-	-
NET ASSETS, End of Year	<u>\$ (228,391)</u>	<u>\$ (216,520)</u>	<u>\$ (444,911)</u>	<u>\$ 666,916</u>	<u>\$ 7,318,526</u>	<u>\$ 7,540,531</u>	<u>\$ 8,005,836</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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL	
	Exhibitions	Education	Museum Store	Total	Management and General	Fundraising	Total	2009	2008
OPERATING EXPENSES:									
Salaries and Wages	\$ 681,638	\$ 649,717	\$ 122,828	\$ 1,454,183	\$ 356,078	\$ 293,301	\$ 649,379	\$ 2,103,562	\$ 2,251,350
Payroll Taxes and Benefits	135,754	129,396	24,462	289,612	70,916	58,413	129,329	418,941	627,818
Total Salaries and Related Expenses	817,392	779,113	147,290	1,743,795	426,994	351,714	778,708	2,522,503	2,879,168
In-Kind Rent	1,062,286	195,937	134,744	1,392,967	122,517	122,517	245,034	1,638,001	2,059,200
Security	317,912	-	-	317,912	-	5,081	5,081	322,993	278,992
Volunteer Services	-	194,156	31,250	225,406	-	-	-	225,406	208,110
Shipping and Storage	153,264	65	1,118	154,447	4,908	61	4,969	159,416	110,972
Outside Services	72,377	9,772	2,258	84,407	48,460	21,316	69,776	154,183	166,510
Cost of Goods Sold	-	-	112,335	112,335	-	-	-	112,335	172,820
In-Kind Support Expense	37,235	41,278	-	78,513	2,148	13,816	15,964	94,477	-
Marketing	43,495	28,497	3,107	75,099	1,082	6,483	7,565	82,664	281,649
Exhibition Costs	71,209	-	-	71,209	-	-	-	71,209	92,442
Materials	45,034	10,894	3,209	59,137	9,325	-	9,325	68,462	70,704
Legal and Accounting	-	95	-	95	56,324	-	56,324	56,419	111,194
Miscellaneous	3,944	459	335	4,738	35,973	12,646	48,619	53,357	62,437
Bank Charges	799	145	6,271	7,215	15,621	27,322	42,943	50,158	109,084
Telephone and Utilities	16,520	6,802	1,458	24,780	12,918	11,175	24,093	48,873	69,581
Catering	-	-	-	-	-	41,029	41,029	41,029	75,339
Printing and Web Design	2,199	2,116	2,000	6,315	7,493	23,196	30,689	37,004	48,970
Insurance	20,503	-	-	20,503	15,205	-	15,205	35,708	44,780
Equipment Expenses	4,801	-	-	4,801	23,508	662	24,170	28,971	27,572
Travel	6,293	2,236	959	9,488	7,018	4,290	11,308	20,796	11,718
Meetings and Lunches	1,425	95	95	1,615	1,359	16,777	18,136	19,751	47,313
Postage	1,930	430	220	2,580	801	14,041	14,842	17,422	31,970
Office Supplies	1,171	424	788	2,383	5,031	2,120	7,151	9,534	12,690
Conservation	1,673	-	-	1,673	-	-	-	1,673	1,650
Copying	786	-	-	786	-	349	349	1,135	4,045
Recruiting	-	-	-	-	589	-	589	589	92,260
Total Operating Expenses	2,682,248	1,272,514	447,437	4,402,199	797,274	674,595	1,471,869	5,874,068	7,071,170
NONOPERATING EXPENSES:									
Purchased Art Collection Items	94,000	-	-	94,000	-	-	-	94,000	224,623
Depreciation and Amortization	28,115	16,869	5,623	50,607	2,811	2,811	5,622	56,229	139,147
Impairment of Construction in Progress	-	-	-	-	-	-	-	-	393,453
Interest Expense	-	-	-	-	6,415	-	6,415	6,415	25,528
Total Functional Expenses	\$ 2,804,363	\$ 1,289,383	\$ 453,060	\$ 4,546,806	\$ 806,500	\$ 677,406	\$ 1,483,906	\$ 6,030,712	\$ 7,853,921
Percentage of Total	46.5 %	21.4 %	7.5 %	75.4 %	13.4 %	11.2 %	24.6 %	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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (465,305)	\$ (1,305,932)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	56,229	139,147
Impairment of Construction In Progress	-	393,453
Net Realized Loss (Gain) on Sale of Investments	354,002	(260,733)
Net Unrealized Loss on Investments	533,550	761,728
Reinvested Dividends and Interest, Net of Fees	(162)	(144,118)
(Increase) Decrease in Assets:		
Contributions Receivable	(328,000)	336,000
Accounts Receivable	(13,077)	9,632
Museum Store Inventory	15,983	(7,397)
Deferred Exhibition Costs	2,241	21,946
Increase (Decrease) in Liabilities:		
Accounts Payable	(152,055)	(182,127)
Accrued Liabilities	60,129	(54,698)
Unearned Revenue	(106,133)	(29,136)
Net Cash Used by Operating Activities	(42,598)	(322,235)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds From Sale (Purchase) of Investments, Net	498,989	2,053,808
Purchase of Property and Equipment	(62,067)	(51,046)
Net Cash Provided by Investing Activities	436,922	2,002,762
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds From Borrowings	350,000	125,000
Repayment Of Borrowings	(362,528)	(637,464)
Net Cash Used by Financing Activities	(12,528)	(512,464)
NET INCREASE IN CASH AND CASH EQUIVALENTS	381,796	1,168,063
CASH AND CASH EQUIVALENTS, Beginning of Year	1,985,356	817,293
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,367,152	\$ 1,985,356
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	\$ 5,846	\$ 25,528

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

NOTE 1 - ORGANIZATION:

San Jose Museum of Art Association (the "Museum" or "SJMA") is a California nonprofit public benefit corporation incorporated in 1969. The Museum's mission is to foster the awareness, appreciation and understanding of twentieth and twenty-first century art in the diverse audiences of the San Francisco Bay Area. The Museum achieves its mission through exhibitions, education programs, collections, publications, and outreach programs, all of which are designed to serve, engage and enrich the individual and the community. The Museum also owns and operates a store located in the museum.

The Museum's operations are partly dependent on the support of the City of San Jose through grants 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 many ages, income levels, and cultural backgrounds. SJMA's exhibitions address major trends in international contemporary art, with an ongoing commitment to highlight the work of emerging artists and the history of California art. 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 ethnic and racial diversity of its communities. The Museum presents nine to twelve exhibitions each year, including one-person and thematic group exhibitions that range from traditional painting to exploratory new-media installations. The curatorial staff organizes about half of the exhibitions in a given season. In-house exhibitions are frequently accompanied by scholarly publications and 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 artistic commissions that reflect the cultural diversity and character of its region.

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 was the first museum to adopt cell phone tours and a leader in iPod usage.) SJMA is the largest provider of arts education in the schools in greater Santa Clara County. SJMA is dedicated to furthering online and e-learning capabilities and to opening 21st-century doorways to art—to pioneering dynamic new ways to provide rich context for the art on view and to amplify audiences' experiences. SJMA has been recognized by two "MUSE" awards from the American Association of Museums for its use of new interactive, tech-based activities in the galleries and on the Web, e.g. YouTube, Flickr, Facebook, podcasts, digital timelines, and iPod Touch tours. The Museum is proud to offer 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; tours, workshops, in-class presentations, curriculum guides.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

The Museum serves over 37,000 young people who participate in over 50,000 hands-on experiences. The Museum provides lectures, symposia, educator-led tours in the galleries (often paired with hands-on art activities); an in-school art docent program that teaches visual thinking skills; sequential in-school art-making workshops (often combined with gallery 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, the employees of corporate partners are invited to a biannual event called Tech Connect which is an immersive night of art, docent tours, hands-on art-making projects, and interactive interpretation activities in the galleries.

SJMA is midstream in the process of rebuilding its web site to enable smoother information delivery, web-based access to the collection, and additional participatory educational and curatorial projects.

Museum Store

The Museum Store is located off the main lobby of SJMA. This active 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 each current season of exhibitions. The store is staffed by Museum employees as well as 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 - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Museum is required to report information regarding its financial position and activities according to 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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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, 2008, 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 unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Museum adopted the provisions of SFAS No. 157, *Fair Value Measurements*, effective July 1, 2008. Under SFAS No. 157, 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."

SFAS No. 157 establishes a hierarchy 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
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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. The Museum had incurred design, architecture and other costs related to a planned expansion of the museum, which were recorded as construction in progress. During the year ended June 30, 2008 the Museum decided not to continue to pursue this expansion and these capitalized costs totaling \$393,453 were charged to nonoperating activities. For the year ended June 30, 2009 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2009 and 2008, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2009 and 2008 was \$84,391 and \$56,280, 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 that will be presented in a future period.

Contributions - Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 and donated services are also recognized in accordance with the provisions of SFAS No. 116. 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 Organization 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 these 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 personnel time and space utilized.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization 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.

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2009 and 2008 was \$56,008 and \$139,000, 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, 2009 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, January 19, 2010. The Organization had one subsequent event (See Note 17) that required recognition or disclosure in the financial statements for the year ended June 30, 2009.

Recent Accounting Pronouncements -

FIN 48 - In June 2006, the Financial Accounting Standards Boards (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 provides guidance on recognition and measurement of uncertainties in income taxes recognized in financial statements by prescribing a more-likely-than-not recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. On December 30, 2008 FASB Staff Position (FSP) FIN 48-3 was issued and allows for the deferral of FIN 48 for fiscal years beginning after December 15, 2008.

In accordance with this provision, the Museum elected to defer the application of FIN 48. Based on management's analysis of the Museum's tax positions, the accounting for any uncertainty in its tax positions is not expected to have a material impact on the financial statements.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

SFAS No. 157 - In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, application of SFAS No. 157 will change current practice. In February 2008, FASB issued Staff Position No. 157-2 that defers the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in financial statements on a recurring basis for fiscal years beginning after November 15, 2008. In addition, FASB also agreed to exclude from scope of SFAS No. 157 fair value measurements made for purposes of applying SFAS No. 13, *Accounting for Leases*, and related interpretive accounting pronouncements. The adoption of SFAS No. 157 for financial assets and liabilities did not have a significant impact on the Museum's results of operations, cash flows or financial position. The Museum is assessing the impact of adopting SFAS No. 157 on non-financial assets and liabilities, but does not expect it to have a material impact on its results of operations, cash flows or financial position.

SFAS No. 159 - In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for an entity's first fiscal year that begins after November 15, 2007. The Museum has adopted SFAS No. 159 but did not elect to measure any eligible financial instruments at fair value under this guidance.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following at June 30:

	<u>2009</u>	<u>2008</u>
Endowment Campaign	\$ 300,000	\$ 300,000
Programs and Other	<u>947,000</u>	<u>619,000</u>
Total Contributions Receivable	<u>\$ 1,247,000</u>	<u>\$ 919,000</u>

As of June 30, 2009, \$817,000 of the contributions receivable is expected to be collected in less than one year and \$430,000 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, 2009 and 2008.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - INVESTMENTS:

In accordance with SFAS No. 157 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:

	2009	2008
Unrestricted:		
Debt Securities	\$ 40,410	\$ 33,060
Permanently Restricted:		
Mutual Funds	338,833	842,526
Equity Securities	1,735,395	2,564,625
Fixed Income Securities	1,339,869	1,400,675
Total Permanently Restricted	3,414,097	4,807,826
Total Investments at Fair Value	\$ 3,454,507	\$ 4,840,886
	2009	2008
Net Investment Income Loss:		
Interest and Dividends	\$ 150,817	\$ 271,565
Net Realized and Unrealized Loss	(886,596)	(500,995)
Total Net Investment Loss	\$ (735,779)	\$ (229,430)

For information on investment income subsequent to the year end see Note 17.

NOTE 6 - PROPERTY AND EQUIPMENT:

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

	2009	2008
Computer and Media Equipment	\$ 745,768	\$ 728,542
Furniture and Fixtures	161,002	154,618
Software	190,216	175,686
Leasehold Improvements	613,310	589,383
	1,710,296	1,648,229
Less: Accumulated Depreciation and Amortization	(1,476,218)	(1,419,989)
Property and Equipment, Net	\$ 234,078	\$ 228,240

Depreciation and amortization expense for the years ended June 30, 2009 and 2008 was \$56,229 and \$139,147, respectively.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - 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, 2009, 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. In accordance with SFAS No. 157 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%.

NOTE 8 - NOTES PAYABLE:

Notes payable as of June 30, consisted of following:

	2009	2008
<p><u>Bank of The West Telephone Loan</u> - bearing 8.25% interest, to be repaid over a period of sixty months beginning January 5, 2007. Principal payments equal to \$1,044 are due for the first fifty-nine months and a final principal and interest payment of \$1,051 is due in December 2011. The Note balance is collateralized by the Museum's telephone system.</p>	\$ 31,322	\$ 43,850
<p><u>Venture Fund/Cash Reserve Loan</u> - The Community Foundation Silicon Valley and the Silicon Valley Arts Fund (Arts Fund) jointly hold a reserve fund that is available to the Museum on a when-and-if needed basis, as determined at the sole discretion of the Foundation and Arts Fund. There is no guarantee the Museum will ultimately receive these funds and therefore, the reserve fund balance is not reflected in the Museum's financial statements. In June 2008 the Museum entered into a Note Payable to borrow \$350,000 from the Arts Fund. The loan bears no interest as stipulated in the Arts Fund Trust document and repayment of the entire principal sum was due by June 30, 2009. The Note stipulates that if the loan is not repaid by that date, interest earnings from the Museum's endowment portion of the Arts Fund will be withheld until such time as the accumulated interest earnings replenish the amount borrowed under the note. The Museum repaid the loan in full subsequent to June 30, 2009 and then re-borrowed the \$350,000 under the same terms after waiting the required thirty days.</p>	350,000	-
<p>Total Notes Payable</p>	\$ 381,322	\$ 43,850

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - NOTES PAYABLE (Continued):

Scheduled maturities for the above notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 362,529
2011	12,529
2012	<u>6,264</u>
Total	<u>\$ 381,322</u>

NOTE 9 - LINE OF CREDIT:

The Museum has a \$500,000 unsecured line of credit with Bank of the West. The line of credit was renewed on March 18, 2009 and extended until February 28, 2010. The line of credit bears interest at the bank's prime rate plus 0.5% per annum (4% at June 30, 2009). The agreement provides for various financial and non-financial covenants including, among other things, maintaining profitable operations on an annual basis, timely financial reporting and repaying all outstanding indebtedness for a 30-day period during the year. The amount available under this line of credit at June 30, 2009 was \$400,000. As of June 30, 2009 and 2008 the amount outstanding was \$100,000 and \$450,000, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLANS:

The Museum previously contributed to a defined contribution 403(b) retirement plan for employees who have completed one year of service, and have worked at least 1,000 hours during that year. The Museum suspended its pension contribution effective March 1, 2009. Pension expense for the years ended June 30, 2009 and 2008 was \$101,164 and \$127,000, 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 was \$58,900 and \$52,422 at June 30, 2009 and 2008, respectively representing the fully vested benefits for the one employee covered under the plan.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Exhibitions and Education Programs	\$ 339,344	\$ 80,399
Debt Reduction	-	100,000
Director's Fund	100,425	-
Gala	30,250	-
Strategic Plan	46,897	-
Time Restriction	<u>150,000</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 666,916</u>	<u>\$ 180,399</u>

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Endowment Funds	\$ 6,388,409	\$ 6,388,409
Beneficial Interest in Perpetual Trust	<u>930,117</u>	<u>930,117</u>
Total Permanently Restricted Net Assets	<u>\$ 7,318,526</u>	<u>\$ 7,318,526</u>

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>2009</u>
Exhibitions and Educations Programs	\$ 759,588
Art Acquisitions	99,960
Strategic Plan	13,103
Debt Reduction	100,000
Other	<u>10,000</u>
Total Net Assets Released from Restrictions	<u>\$ 982,651</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Organization 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 Organization
- (7) The investment policies of the Organization

Funds with Deficiencies - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets totaled \$(216,520) as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ended June 30, 2009. Subsequent to June 30, 2009 the fair value of the Museum's endowment investments increased. During the period from July 1, 2009 to December 31, 2009, the Museum's endowment investments increased in fair value by approximately \$1,251,000. Approximately half of this amount was due to additional investment purchases with endowment cash and cash equivalents.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - ENDOWMENT (Continued):

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.

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, 2009 consisted of the following:

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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SAN JOSE MUSEUM OF ART ASSOCIATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - ENDOWMENT (Continued):

Donor-Restricted Endowment Funds	<u>\$ (216,520)</u>	<u>\$ -</u>	<u>\$ 7,318,526</u>	<u>\$ 7,102,006</u>
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Changes in endowment net assets for the fiscal year ended June 30, 2009 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 535,707	\$ -	\$ 7,318,526	\$ 7,854,233
Net Assets Reclassification Based on Change in Law	<u>(535,707)</u>	<u>535,707</u>	<u>-</u>	<u>-</u>
Endowment Net Assets After Reclassification	-	535,707	7,318,526	7,854,233
Interest and Dividends	134,369	-	-	134,369
Net Realized Loss	(350,889)	(2,625)	-	(353,514)
Net Unrealized Loss	<u>-</u>	<u>(533,082)</u>	<u>-</u>	<u>(533,082)</u>
Endowment Net Assets, End of Year	<u>\$ (216,520)</u>	<u>\$ -</u>	<u>\$ 7,318,526</u>	<u>\$ 7,102,006</u>

NOTE 15 - IN-KIND RENT AND DONATED SERVICES:

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 \$1,638,001 and \$2,059,200 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, 2009 and 2008 respectively.

Donated services are recognized as contributions in accordance with the provisions of SFAS No. 116 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, consisting primarily of museum docents. Donated services of \$225,406 and \$299,525 have been recognized as in-kind support and program expenses in the Statement of Activities for the years ended June 30, 2009 and 2008 respectively.

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 fund-raising campaigns, which do not meet the criteria for recognitions as donated services. Accordingly, no amounts have been recognized for these services in the accompanying financial statements.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - IN-KIND RENT AND DONATED SERVICES (Continued):

NOTE 16 - CONCENTRATIONS:

At June 30, 2009 and 2008, \$300,000 of the Museum's contributions receivable relating to its endowment campaign was due from a member of the Board of Trustees. The Museum has not provided an allowance for potential credit losses for contributions receivable, as it believes the amount is fully collectible. The Museum had additional contributions receivable from Board members totaling \$560,000 and \$400,000 at June 30, 2009 and 2008, respectively. Contribution support for the year ended June 30, 2009 included \$899,800 received from Board members.

NOTE 17 - SUBSEQUENT EVENTS:

During the period from July 1, 2009 to December 31, 2009 the Museum's investments increased in fair value by approximately \$1,255,000. Approximately half of this amount was due to additional investment purchases with cash and cash equivalents.