

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

FINANCIAL STATEMENTS

Year Ended June 30, 2011 with Comparative Totals
for the Year Ended June 30, 2010

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	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, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Museum'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 San Jose Museum of Art Association's financial statements for the year ended June 30, 2010 and, in our report dated September 29, 2010, we expressed an unqualified opinion on those financial 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, 2011, 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
November 17, 2011

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

STATEMENT OF FINANCIAL POSITION

June 30, 2011 with Comparative Totals as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	
				2011	2010
ASSETS					
Cash and Cash Equivalents	\$ 448,794	\$ 438,292	\$ 109,372	\$ 996,458	\$ 1,020,186
Accounts Receivable	13,142	1,250	4,842	19,234	16,188
Interfund Receivables and Payables	(457,828)	154,605	303,223	-	-
Contributions Receivable	364,377	344,755	923,772	1,632,904	1,137,268
Museum Store Inventory	80,492	-	-	80,492	90,024
Note Receivable - Related Party	250,000	-	-	250,000	250,000
Deferred Exhibition Costs and Prepaids	52,589	-	-	52,589	20,219
Investments	59,770	1,326,136	5,910,853	7,296,759	5,716,998
Property and Equipment, Net	100,131	-	-	100,131	156,670
Beneficial Interest in Perpetual Trust	-	-	930,117	930,117	930,117
TOTAL ASSETS	\$ 911,467	\$ 2,265,038	\$ 8,182,179	\$ 11,358,684	\$ 9,337,670
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 84,591	\$ -	\$ -	\$ 84,591	\$ 87,759
Accrued Liabilities	250,949	-	-	250,949	238,129
Unearned Revenue	104,850	-	-	104,850	64,063
Note Payable	6,264	-	-	6,264	18,793
Total Liabilities	446,654	-	-	446,654	408,744
NET ASSETS:					
Unrestricted Net Assets	464,813	-	-	464,813	412,058
Temporarily Restricted Net Assets	-	2,265,038	-	2,265,038	958,461
Permanently Restricted Net Assets	-	-	8,182,179	8,182,179	7,558,407
Total Net Assets	464,813	2,265,038	8,182,179	10,912,030	8,928,926
TOTAL LIABILITIES AND NET ASSETS	\$ 911,467	\$ 2,265,038	\$ 8,182,179	\$ 11,358,684	\$ 9,337,670

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, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	TOTAL
OPERATING SUPPORT AND REVENUE:					
Contributions	\$ 1,575,799	\$ 964,039	\$ -	\$ 2,539,838	\$ 2,860,673
SVCF Contribution	-	-	-	-	598,173
Other In-Kind Support	402,159	-	-	402,159	344,284
Public Programs	360,249	-	-	360,249	268,622
Membership Dues	221,081	-	-	221,081	221,713
Museum Store	211,147	-	-	211,147	278,681
Event Rental Income	167,525	-	-	167,525	118,050
Other Revenue	156,460	-	-	156,460	38,802
Special Event Revenue	119,366	-	-	119,366	141,170
Less: Direct Expenses	(83,091)	-	-	(83,091)	(122,213)
Art Class Contracts and Tuition	43,720	-	-	43,720	48,830
	<u>3,174,415</u>	<u>964,039</u>	<u>-</u>	<u>4,138,454</u>	<u>4,796,785</u>
In-Kind Rent	<u>1,169,999</u>	<u>-</u>	<u>-</u>	<u>1,169,999</u>	<u>1,404,000</u>
Total Operating Support and Revenue	4,344,414	964,039	-	5,308,453	6,200,785
Net Assets Released from Restrictions - Operations	<u>1,405,201</u>	<u>(1,105,201)</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>
Total Operating Support, Revenue and Net Assets Released from Restrictions	<u>5,749,615</u>	<u>(141,162)</u>	<u>(300,000)</u>	<u>5,308,453</u>	<u>6,200,785</u>
OPERATING EXPENSES:					
Program Services:					
Exhibitions	2,537,553	-	-	2,537,553	2,528,119
Education	969,871	-	-	969,871	766,870
Museum Store	378,810	-	-	378,810	427,450
Total Program Services	<u>3,886,234</u>	<u>-</u>	<u>-</u>	<u>3,886,234</u>	<u>3,722,439</u>
Supporting Services:					
Management and General	704,784	-	-	704,784	781,543
Fundraising	649,135	-	-	649,135	700,677
Total Supporting Services	<u>1,353,919</u>	<u>-</u>	<u>-</u>	<u>1,353,919</u>	<u>1,482,220</u>
Total Operating Expenses	<u>5,240,153</u>	<u>-</u>	<u>-</u>	<u>5,240,153</u>	<u>5,204,659</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>509,462</u>	<u>(141,162)</u>	<u>(300,000)</u>	<u>68,300</u>	<u>996,126</u>
NONOPERATING ACTIVITIES:					
Endowment Investment Income, Net	-	1,314,599	-	1,314,599	419,259
Endowment Contributions	-	-	923,772	923,772	-
Contributions for Art Collection Items	-	206,171	-	206,171	135,271
General Investment Income, Net	840	-	-	840	19,145
Net Assets Released from Restrictions - Art Acquisitions	73,031	(73,031)	-	-	-
Bad Debt Expense	(400,000)	-	-	(400,000)	-
Purchased Art Collection Items	(73,031)	-	-	(73,031)	(97,143)
Depreciation and Amortization	(56,539)	-	-	(56,539)	(77,408)
Interest Expense	(1,008)	-	-	(1,008)	(6,855)
Total Nonoperating Activities	<u>(456,707)</u>	<u>1,447,739</u>	<u>923,772</u>	<u>1,914,804</u>	<u>392,269</u>
CHANGE IN NET ASSETS	52,755	1,306,577	623,772	1,983,104	1,388,395
NET ASSETS, Beginning of Year	<u>412,058</u>	<u>958,461</u>	<u>7,558,407</u>	<u>8,928,926</u>	<u>7,540,531</u>
NET ASSETS, End of Year	<u>\$ 464,813</u>	<u>\$ 2,265,038</u>	<u>\$ 8,182,179</u>	<u>\$ 10,912,030</u>	<u>\$ 8,928,926</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, 2011 with Comparative Totals for the Year Ended June 30, 2010

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL	
	Exhibitions	Education	Museum Store	Total	Management and General	Fundraising	Total	2011	2010
OPERATING EXPENSES:									
Salaries and Wages	\$ 811,070	\$ 327,829	\$ 113,655	\$ 1,252,554	\$ 358,661	\$ 306,407	\$ 665,068	\$ 1,917,622	\$ 1,895,916
Payroll Taxes and Benefits	129,699	52,951	19,406	202,056	52,306	42,215	94,521	296,577	240,709
Total Salaries and Related Expenses	940,769	380,780	133,061	1,454,610	410,967	348,622	759,589	2,214,199	2,136,625
In-Kind Rent	757,831	140,899	96,245	994,975	87,512	87,512	175,024	1,169,999	1,404,000
Outside Services and Security	282,329	13,613	-	295,942	41,170	44,291	85,461	381,403	394,772
Volunteer Services	-	207,500	25,650	233,150	-	-	-	233,150	251,868
Exhibition Costs	207,994	-	-	207,994	-	-	-	207,994	174,449
In-Kind Support Expense	47,849	24,000	560	72,409	25,000	71,600	96,600	169,009	92,416
Travel	13,502	137,234	428	151,164	7,988	-	7,988	159,152	38,759
Shipping and Storage	114,521	126	136	114,783	4,800	-	4,800	119,583	81,572
Cost of Goods Sold	-	-	109,988	109,988	-	-	-	109,988	135,266
Telephone and Utilities	16,765	6,486	1,940	25,191	22,068	11,014	33,082	58,273	49,933
Materials	32,729	19,410	-	52,139	5,936	-	5,936	58,075	36,404
Marketing	46,621	-	-	46,621	2,213	1,855	4,068	50,689	54,702
Bank Charges	80	188	5,410	5,678	4,624	35,964	40,588	46,266	45,977
Legal and Accounting	-	-	-	-	42,000	-	42,000	42,000	51,290
Insurance	36,648	1,682	1,149	39,479	1,045	1,044	2,089	41,568	60,550
Catering	8,744	16,927	-	25,671	-	15,801	15,801	41,472	59,437
Miscellaneous	5,411	3,146	865	9,422	18,464	6,799	25,263	34,685	38,941
Equipment Expenses	6,212	6,177	-	12,389	16,991	600	17,591	29,980	26,122
Printing and Web Design	11,409	5,388	-	16,797	875	11,973	12,848	29,645	27,546
Office Supplies	4,031	6,033	3,213	13,277	10,714	3,229	13,943	27,220	23,655
Postage	3,112	282	118	3,512	668	8,226	8,894	12,406	13,823
Meetings and Lunches	10	-	47	57	1,246	505	1,751	1,808	370
Conservation	986	-	-	986	-	-	-	986	1,882
Recruiting	-	-	-	-	503	100	603	603	4,100
Copying	-	-	-	-	-	-	-	-	200
Total Operating Expenses	2,537,553	969,871	378,810	3,886,234	704,784	649,135	1,353,919	5,240,153	5,204,659
NONOPERATING EXPENSES:									
Bad Debt Expense	-	-	-	-	400,000	-	400,000	400,000	-
Purchased Art Collection Items	73,031	-	-	73,031	-	-	-	73,031	97,143
Depreciation and Amortization	28,271	16,962	5,654	50,887	2,825	2,827	5,652	56,539	77,408
Interest Expense	-	-	-	-	1,008	-	1,008	1,008	6,855
Total Functional Expenses	\$ 2,638,855	\$ 986,833	\$ 384,464	\$ 4,010,152	\$ 1,108,617	\$ 651,962	\$ 1,760,579	\$ 5,770,731	\$ 5,386,065
Percentage of Total	45.7 %	17.1 %	6.7 %	69.5 %	19.2 %	11.3 %	30.5 %	100.0 %	
Total Functional Expenses	\$ 2,638,855	\$ 986,833	\$ 384,464	\$ 4,010,152	\$ 1,108,617	\$ 651,962	\$ 1,760,579	\$ 5,770,731	\$ 5,386,065
Bad Debt Expense Excluded	-	-	-	-	(400,000)	-	(400,000)	(400,000)	-
Total Functional Expenses Excluding Bad Debt Expense	\$ 2,638,855	\$ 986,833	\$ 384,464	\$ 4,010,152	\$ 708,617	\$ 651,962	\$ 1,360,579	\$ 5,370,731	\$ 5,386,065
Percentage of Total	49.1 %	18.4 %	7.2 %	74.7 %	13.2 %	12.1 %	25.3 %	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, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,983,104	\$ 1,388,395
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	56,539	77,408
Net Realized Gain on Sale of Investments	(31,983)	(242,671)
Net Unrealized Gain on Investments	(1,044,209)	(48,690)
Reinvested Dividends and Interest, Net of Fees	-	(62)
Contributions Restricted for Long-Term Purposes	(239,882)	-
(Increase) Decrease in Assets:		
Accounts Receivable	(3,046)	19,422
Contributions Receivable	(495,636)	109,732
Museum Store Inventory	9,532	30,216
Deferred Exhibition Costs and Prepaids	(32,370)	18,630
Increase (Decrease) in Liabilities:		
Accounts Payable	(3,168)	(15,553)
Accrued Liabilities	12,820	(28,697)
Unearned Revenue	40,787	28,501
Net Cash Provided by Operating Activities	252,488	1,336,631
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale or Maturity of Investments	1,505,144	4,010,609
Purchase of Investments	(2,008,713)	(5,981,677)
Cash Paid for Notes Receivable	-	(250,000)
Net Cash Used by Investing Activities	(503,569)	(2,221,068)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Contributions Restricted for Long-Term Purposes	239,882	-
Repayment of Borrowings	(12,529)	(462,529)
Net Cash Provided (Used) by Financing Activities	227,353	(462,529)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,728)	(1,346,966)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,020,186	2,367,152
CASH AND CASH EQUIVALENTS, End of Year	\$ 996,458	\$ 1,020,186
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	\$ 1,095	\$ 7,294
Noncash Financing Activity - Debt Offset by Distribution from Arts Fund	\$ -	\$ 350,000

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 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. The Museum also owns and operates a store located in the museum.

The Museum's operations receive support from 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 most 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 annually. 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 stARTup which is an immersive night of art, docent tours, hands-on art-making projects, and interactive interpretation activities in the galleries.

SJMA recently rebuilt its website to enable smooth delivery of information, participatory educational material, and curatorial projects, and to integrate social media. A two-year project to provide web-based access to the collection is underway.

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 - 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
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2010, 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 restriction.

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
(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.

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, 2011 and 2010 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

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):

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2011 and 2010, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2011 and 2010 was \$100,188 and \$80,464, 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 - 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 these services is disclosed in Note 16.

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 - Effective July 1, 2009 the Museum implemented the new accounting requirements associated with uncertainty in income taxes. The new accounting requirements under 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 tax returns are more likely than not to be sustained upon examination.

The Museum's federal returns for years ended June 30, 2010, 2009 and 2008 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Museum's state returns for years ended June 30, 2010, 2009, 2008 and 2007 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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):

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2011 and 2010 was \$34,076 and \$33,137, 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, 2011 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, November 17, 2011. The Museum had one subsequent event (see Note 18) that required recognition or disclosure in the financial statements for the year ended June 30, 2011.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Endowment Campaign	\$ 1,000,000	\$ 300,000
Programs and Other	724,377	588,851
SVCF Fund Distribution	-	248,417
Less Discounts to Net Present Value	<u>(91,473)</u>	<u>-</u>
Total Contributions Receivable	<u>\$ 1,632,904</u>	<u>\$ 1,137,268</u>

As of June 30, 2011, \$524,377 of the contributions receivable is expected to be collected in less than one year and \$1,200,000 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, 2011 and 2010.

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, 2011 was 2.7%.

The \$248,417 SVCF Fund Distribution represented the receivable for the remaining balance due from a one time distribution from the Silicon Valley Community Foundation/Silicon Valley Arts Fund. The total distribution of \$598,173 included \$239,881 from the art endowment fund recorded as a permanently restricted contribution and \$358,292 from the art reserve fund recorded as an unrestricted contribution for the year ended June 30, 2010. The amounts were received in full during the year ended June 30, 2011.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$6,000 and \$2,250 as of June 30, 2011 and 2010, respectively. Interest earned on the note was \$3,750 and \$2,250 for the years ended June 30, 2011 and 2010, respectively.

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:

	2011	2010
Unrestricted:		
Debt Securities	\$ 59,770	\$ 59,515
Temporarily Restricted:		
Endowment Accumulated Earnings - Unappropriated	1,326,136	-
Permanently Restricted:		
Mutual Funds	5,974,879	4,310,070
Equity Securities	676,137	664,390
Fixed Income Securities	585,973	683,023
Less: Endowment Accumulated Earnings - Unappropriated	(1,326,136)	-
Total Permanently Restricted	5,910,853	5,657,483
Total Investments at Fair Value	\$ 7,296,759	\$ 5,716,998
	2011	2010
Net Investment Income :		
Net Realized and Unrealized Gain	\$ 1,076,192	\$ 291,361
Interest and Dividends	203,914	147,043
Distribution from Beneficial Interest in Perpetual Trust	35,333	-
Total Net Investment Income	\$ 1,315,439	\$ 438,404

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PROPERTY AND EQUIPMENT:

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

	<u>2011</u>	<u>2010</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>(1,610,165)</u>	<u>(1,553,626)</u>
Property and Equipment, Net	<u>\$ 100,131</u>	<u>\$ 156,670</u>

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 was \$56,539 and \$77,408, 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, 2011, 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%.

NOTE 9 - NOTE PAYABLE:

The note payable as of June 30, 2011 and 2010 consisted of a telephone loan due to Bank of the West bearing interest at 8.25% 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. The total balance due as of June 30, 2011 and 2010 was \$6,264 and \$18,793, respectively.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LINE OF CREDIT:

The Museum has a \$500,000 unsecured line of credit with Bank of the West. The line is due upon demand. Payments of interest at the bank's prime rate plus 1.5% per annum with an interest rate floor of 5% per annum (5% at June 30, 2011) are due monthly. 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, 2011 was \$500,000. As of June 30, 2011 and 2010 the amount outstanding was \$0.

NOTE 11 - 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 and reinstated the contribution on July 1, 2010. Pension expense for the years ended June 30, 2011 and 2010 was \$45,543 and \$0, 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 \$59,770 and \$59,515 at June 30, 2011 and 2010, respectively representing the fully vested benefits for the one employee covered under the plan.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2011</u>	<u>2010</u>
Endowment Accumulated Earnings - Unappropriated	\$ 1,482,005	\$ 202,739
Exhibitions and Education Programs	537,707	476,416
Time Restriction	150,000	150,000
Art Acquisitions	60,894	20,131
Director's Fund	34,432	95,425
Gala	<u>-</u>	<u>13,750</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,265,038</u>	<u>\$ 958,461</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS:

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

	2011	2010
Endowment Funds	\$ 7,252,062	\$ 6,628,290
Beneficial Interest in Perpetual Trust	930,117	930,117
Total Permanently Restricted Net Assets	\$ 8,182,179	\$ 7,558,407

NOTE 14 - 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:

	2011
Temporary Restricted Net Assets Released from Restrictions - Operations:	
Exhibitions and Educations Programs	\$ 822,760
Time Restriction	150,000
Director's Fund	60,993
Amount Appropriated for Expenditures from Distribution from Beneficial Interest in Perpetual Trust	35,333
Gala	28,565
Other	7,550
Total Temporarily Restricted Net Assets Released from Restrictions - Operations	1,105,201
Temporarily Restricted Net Assets Released from Restrictions - Art Acquisitions:	
Art Acquisitions	73,031
Total Temporarily Restricted Net Assets Released from Restrictions	1,178,232
Permanently Restricted Net Assets Released from Restrictions:	
Endowment Pledge Bad Debt	300,000
Total Net Assets Released from Restrictions	\$ 1,478,232

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT:

San Jose Museum of Art Association's endowment consists of two individual funds (see Note 13). 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
- (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, 2011 and 2010.

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

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, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 1,482,005	\$ 8,182,179	\$ 9,664,184

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 202,739	\$ 7,558,407	\$ 7,761,146
Contributions	-	-	923,772	923,772
Endowment Pledge Bad Debt	-	-	(300,000)	(300,000)
Distribution from Beneficial Interest in Perpetual Trust	-	35,333	-	35,333
Amount Appropriated for Expenditure	-	(35,333)	-	(35,333)
Interest and Dividends	-	203,074	-	203,074
Net Realized Gain	-	31,983	-	31,983
Net Unrealized Gain	-	1,044,209	-	1,044,209
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 1,482,005</u>	<u>\$ 8,182,179</u>	<u>\$ 9,664,184</u>

Endowment net asset composition by type of fund as of June 30, 2010 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 202,739</u>	<u>\$ 7,558,407</u>	<u>\$ 7,761,146</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

Changes in endowment net assets for the fiscal year ended June 30, 2010 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ (216,520)	\$ -	\$ 7,318,526	\$ 7,102,006
Contributions	-	-	239,881	239,881
Interest and Dividends	-	128,235	-	128,235
Net Realized Gain	216,520	25,346	-	241,866
Net Unrealized Gain	-	49,158	-	49,158
Endowment Net Assets, End of Year	\$ -	\$ 202,739	\$ 7,558,407	\$ 7,761,146

NOTE 16 - 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 \$1,169,999 and \$1,404,000 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, 2011 and 2010, 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 consisted primarily of museum docents. Donated services of \$233,150 and \$251,868 have been recognized as in-kind support and program expenses in the statement of activities for the years ended June 30, 2011 and 2010, 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 fundraising 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 17 - CONCENTRATIONS:

At June 30, 2011 and 2010, \$0 and \$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 had additional contributions receivable from Board members totaling \$1,489,860 and \$435,000 at June 30, 2011 and 2010, respectively. During the year ended June 30, 2011, \$300,000 of contributions receivable relating to its endowment campaign and \$100,000 of other contributions receivable due from a Board member were written off as a bad debt. Contribution support for the years ended June 30, 2011 and 2010 included \$2,007,032 and \$691,063, respectively received from Board members.

NOTE 18 - LITIGATION:

Subsequent to the year ended June 30, 2011 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.