

SAN JOSE MUSEUM OF ART ASSOCIATION

JUNE 30, 2022

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

San Jose Museum of Art Association

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 2
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Financial Statements

Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 19



A Century Strong

Independent Auditors' Report

THE BOARD OF TRUSTEES
SAN JOSE MUSEUM OF ART ASSOCIATION
San Jose, California

Opinion

We have audited the financial statements of **SAN JOSE MUSEUM OF ART ASSOCIATION (the Museum)**, which comprise the statement of financial position as of June 30, 2022, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

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

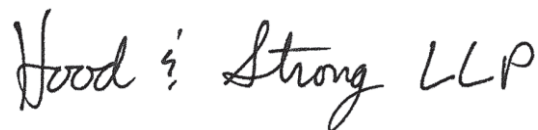
In performing an audit in accordance with GAAS, we:

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

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

Report on Summarized Comparative Information

We have previously audited the Museum's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in cursive script that reads "Hood & Strong LLP".

San Jose, California
September 14, 2022

San Jose Museum of Art Association

Statement of Financial Position

June 30, 2022 (with comparative totals for 2021)

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Assets				
Cash and cash equivalents	\$ 1,977,697	\$ 1,714,559	\$ 3,692,256	\$ 3,795,388
Accounts receivable	15,540	5,481	21,021	82,161
Contributions receivable, net	88,800	1,612,734	1,701,534	1,494,388
Museum store inventory	57,087		57,087	72,974
Deferred exhibition costs and prepaids	154,004		154,004	92,328
Investments	93,141	10,568,030	10,661,171	13,350,766
Property and equipment, net			-	479
Total assets	\$ 2,386,269	\$ 13,900,804	\$ 16,287,073	\$ 18,888,484
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 126,316		\$ 126,316	\$ 144,312
Accrued liabilities	273,050		273,050	253,436
Unearned revenue	92,502		92,502	59,179
Loan payable - Paycheck Protection Program			-	456,887
Total liabilities	491,868		491,868	913,814
Net Assets:				
Without donor restrictions	1,894,401		1,894,401	1,847,984
With donor restrictions:				
Restricted for specific purposes		\$ 1,624,365	1,624,365	854,785
Restricted for passage of time		1,539,813	1,539,813	1,764,102
Subject to appropriation and spending policy		2,171,299	2,171,299	4,953,994
Held in perpetuity		8,565,327	8,565,327	8,553,805
Total net assets	1,894,401	13,900,804	15,795,205	17,974,670
Total liabilities and net assets	\$ 2,386,269	\$ 13,900,804	\$ 16,287,073	\$ 18,888,484

See accompanying notes to financial statements.

San Jose Museum of Art Association
Statement of Activities and Change in Net Assets

Year Ended June 30, 2022 (with comparative totals for 2021)

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue:				
Contributions and grants	\$ 1,437,623	\$ 1,937,884	\$ 3,375,507	\$ 2,959,726
Forgiveness of loan payable - Paycheck Protection Program		456,887	456,887	466,316
Employee retention credits	203,713		203,713	-
Public programs and admissions	264,257		264,257	74,896
Special events, net	353,468		353,468	571,772
Museum store, net	54,740		54,740	9,856
Membership dues	178,097		178,097	148,895
Event rental income	62,800		62,800	10,500
Other income	6,237		6,237	8,256
Art class contracts and tuition	12,200		12,200	10,800
Net assets released from restrictions	2,477,449	(2,477,449)	-	-
	5,050,584	(82,678)	4,967,906	4,261,017
In-kind support	1,835,425		1,835,425	2,061,759
Total support and revenue	6,886,009	(82,678)	6,803,331	6,322,776
Operating Expenses:				
Program services:				
Exhibitions	3,510,289		3,510,289	3,380,598
Education	1,305,539		1,305,539	1,232,007
Museum store	281,140		281,140	265,189
Total program services	5,096,968	-	5,096,968	4,877,794
Support services:				
Management and general	900,040		900,040	885,895
Fundraising	824,740		824,740	612,605
Total support services	1,724,780	-	1,724,780	1,498,500
Total operating expenses	6,821,748	-	6,821,748	6,376,294
Change in Net Assets from Operations	64,261	(82,678)	(18,417)	(53,518)
Non-Operating Activities:				
Endowment investment (loss) income, net	(17,897)	(2,003,945)	(2,021,842)	3,042,214
Endowment contributions		11,522	11,522	7,784
In-kind contributions for art collection items			-	130,000
Contributions for art collection items		269,284	269,284	245,544
General investment income, net	532		532	4,855
Depreciation and amortization	(479)		(479)	(1,422)
Net assets released from restriction - art acquisition	420,065	(420,065)	-	-
In-kind other expense - non-operating			-	(130,000)
Purchased art collection items	(420,065)		(420,065)	(540,973)
Total non-operating activities	(17,844)	(2,143,204)	(2,161,048)	2,758,002
Total Change in Net Assets	46,417	(2,225,882)	(2,179,465)	2,704,484
Net Assets - beginning of year	1,847,984	16,126,686	17,974,670	15,270,186
Net Assets - end of year	\$ 1,894,401	\$ 13,900,804	\$ 15,795,205	\$ 17,974,670

See accompanying notes to financial statements.

San Jose Museum of Art Association

Statement of Functional Expenses

Year Ended June 30, 2022 (with comparative totals for 2021)

	Program Services				Support Services			2022 Total	2021 Total
	Exhibitions	Education	Museum Store	Total Program Services	Management and General	Fundraising	Total Support Services		
Operating Expenses:									
Salaries and benefits:									
Salaries and wages	\$ 1,162,969	\$ 682,624	\$ 99,631	\$ 1,945,224	\$ 415,055	\$ 391,089	\$ 806,144	\$ 2,751,368	\$ 2,366,270
Payroll taxes and benefits	227,304	100,060	18,345	345,709	74,926	74,830	149,756	495,465	430,843
Total salaries and benefits	1,390,273	782,684	117,976	2,290,933	489,981	465,919	955,900	3,246,833	2,797,113
In-kind rent	1,077,690	210,561	131,140	1,419,391	92,488	126,120	218,608	1,637,999	1,825,200
Outside services and security	405,029	52,291	4,703	462,023	127,321	57,654	184,975	646,998	579,995
Shipping and storage	133,877	30	580	134,487	101	378	479	134,966	109,617
Volunteer services		121,293	4,010	125,303			-	125,303	166,080
Equipment expenses	76,454	11,618	4,215	92,287	11,154	17,898	29,052	121,339	135,403
Marketing	91,525			91,525	860	930	1,790	93,315	50,999
Materials	23,028	6,721	566	30,315	580	923	1,503	31,818	71,957
Telephone and utilities	24,460	7,390	1,847	33,697	19,983	12,008	31,991	65,688	135,964
Miscellaneous	32,619	11,179	2,508	46,306	31,746	20,030	51,776	98,082	103,703
Travel	22,273	10,542	722	33,537	25,461	10,959	36,420	69,957	10,298
Software maintenance	31,792	357	2,042	34,191	9,683	29,493	39,176	73,367	61,957
Exhibition costs	90,691	1,399	675	92,765			-	92,765	57,013
In-kind support expense	9,639	36,891	741	47,271	20,032	4,820	24,852	72,123	74,890
Professional services	461			461	38,460		38,460	38,921	53,325
Printing and web design	35,282	4,788	99	40,169	1,360	20,642	22,002	62,171	19,847
Catering	168	17,078		17,246	3,707	4,759	8,466	25,712	4,734
Insurance	38,659	2,816	1,754	43,229	1,237	2,311	3,548	46,777	46,302
Office supplies and postage	16,422	24,771	1,934	43,127	12,976	15,200	28,176	71,303	44,524
Bank charges	2,375	2,670	5,066	10,111	276	9,607	9,883	19,994	15,717
Meetings and lunches	1,697	460	153	2,310	8,123	729	8,852	11,162	2,466
Recruiting	450		409	859	4,511	24,360	28,871	29,730	7,034
Conservation	5,425			5,425			-	5,425	2,156
Total operating expenses	3,510,289	1,305,539	281,140	5,096,968	900,040	824,740	1,724,780	6,821,748	6,376,294
Non-Operating Expenses:									
In-kind other expenses				-			-	-	130,000
Purchased art collection items	420,065			420,065			-	420,065	540,973
Depreciation and amortization	240	144	48	432	23	24	47	479	1,422
Total operating and non-operating expenses	3,930,594	1,305,683	281,188	5,517,465	900,063	824,764	1,724,827	7,242,292	7,048,689
Percentage of total expense	54.27%	18.03%	3.88%	76.18%	12.43%	11.39%	23.82%	100.00%	100.00%
Expenses Netted against Revenue:									
Cost of goods sold			50,249	50,249		155	155	50,404	17,727
Total expenses	\$ 3,930,594	\$ 1,305,683	\$ 331,437	\$ 5,567,714	\$ 900,063	\$ 824,919	\$ 1,724,982	\$ 7,292,696	\$ 7,066,416

See accompanying notes to financial statements.

San Jose Museum of Art Association

Statement of Cash Flows

<i>Year Ended June 30, 2022 (with comparative totals for 2021)</i>	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,179,465)	\$ 2,704,484
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	479	1,422
Net realized loss (gain) on sale of investments	6,228	(23,753)
Net unrealized loss (gain) on investments	2,537,732	(2,394,160)
Forgiveness of loan payable - Paycheck Protection Program	(456,887)	(466,316)
Contributions restricted for long-term purposes	(11,522)	(7,784)
Contributions restricted for art collection items	(269,284)	(245,545)
Art collection items purchased	420,065	540,973
Changes in operating assets and liabilities:		
Accounts receivable	61,140	(18,406)
Contributions receivable	(207,146)	453,198
Museum store inventory	15,887	4,584
Deferred exhibition costs and prepaids	(61,676)	137,015
Accounts payable	(17,996)	67,336
Accrued liabilities	19,614	24,663
Unearned revenue	33,323	(11,404)
Net cash (used) provided by operating activities	(109,508)	766,307
Cash Flows from Investing Activities:		
Proceeds from sale or maturity of investments	464,224	1,230,975
Purchases of investments	(318,589)	(1,396,129)
Purchased art collection items	(420,065)	(540,973)
Net cash used by investing activities	(274,430)	(706,127)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt - Paycheck Protection Program		456,888
Proceeds from contributions for art collection items	269,284	245,545
Proceeds from contributions restricted for long-term purposes	11,522	7,783
Net cash provided by financing activities	280,806	710,216
Change in Cash and Cash Equivalents	(103,132)	770,396
Cash and Cash Equivalents - beginning of year	3,795,388	3,024,992
Cash and Cash Equivalents - end of year	\$ 3,692,256	\$ 3,795,388
Supplemental Disclosure:		
There were no amounts paid for taxes or interest in 2022 or 2021.		
Forgiveness of loan payable - Paycheck Protection Program	\$ 456,887	\$ 466,316

See accompanying notes to financial statements.

San Jose Museum of Art Association

Notes to Financial Statements

Note 1 - Organization:

The San Jose Museum of Art Association (the Museum) is a California nonprofit public benefit corporation incorporated in 1969. The Museum presents award-winning exhibitions and educational programs that reflect the diverse cultures and innovative spirit of Silicon Valley. Through its strategic commitment to become a borderless museum essential to creative life, the Museum's off-site programs received the Creative Impact Award from the City of San Jose and the Silicon Valley Chapter of the American Institute of Architects Responsibility Citation Award. The Museum offers free admission to students and their teachers, and a free evening program, Facebook First Fridays.

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

Founded in 1969 by artists, the Museum is a modern and contemporary art museum located near Plaza de Cesar Chavez in downtown San Jose. The Museum is also the only accredited American Alliance of Museums (AAM) art museum in the South Bay and an invited member of the Association of Art Museum Directors (AAMD). The Museum offers a dynamic exhibition program of ten or more rotating exhibitions and over forty public programs per year. The Museum presents the cutting-edge vision of California, national and international artists, promotes visionary work in new media, and presents an experimental gallery-as-laboratory for artists called "Beta Space," as well as the exhibition series "New Stories from the Edge of Asia," which won the AAM Museums Publication Design Competition. The Museum's curatorial staff creates thematic exhibitions drawn from its permanent collection of more than 2,600 works of art and creates collaborative programs with significant California and national museums, to critical acclaim and extensive regional and national press.

The Museum is the largest provider of arts education in Santa Clara County, serving more than 40,000 school children per year. The Museum proudly offers a spectrum of educational programs that provide critical early exposure to the visual arts for tens of thousands of students in grades kindergarten through twelve, such as tours, workshops, in-class presentations, and curriculum guides. Initiatives such as the award-winning school programs "Let's Look at Art," which provides free docent presentations in the classroom, and the award-winning integrated visual arts residency "Sowing Creativity" which offers ten-week courses in art and science (3rd grade), art and math (4th grade), and art and engineering (5th grade), further distinguish the Museum as a leader in museum education. The Museum also offers in-school artmaking workshops, professional development opportunities for teachers, free family-oriented Community Days with hands-on activities and a variety of performances for over 5,500 people, Kids' Summer Art Camp (weeklong adventures into art making linked to current exhibitions), lectures, conversations, and symposia with artists that give the public close access to the creative process.

San Jose Museum of Art Association

Notes to Financial Statements

The Museum store is located adjacent to the Museum's main lobby. This gift and bookstore carries mission-related products that are educational, foster creativity, and encourages the appreciation of art. The Museum store also features custom products by area artists and craftsmen as well as publications relevant to the current exhibitions. The store is staffed by Museum employees as well as by an active contingent of longtime volunteers.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting and Financial Statement Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting.

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), the Museum reports its financial position and activities in two classes of net assets:

- *Net assets without donor restrictions* - 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.
- *Net assets with donor restrictions* - contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restriction. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

b. 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 in the year acquired as non-operating decreases in net assets without donor restrictions in the year in which items are acquired. Proceeds from any deaccessions or insurance recoveries may be allocated for purposes that clearly benefit the collection, such as an acquisition fund to expand the collection or a preservation/conservation fund to maintain it. Certain items are on loan from individuals and corporations for use by the Museum in its permanent collection or for special exhibition.

San Jose Museum of Art Association

Notes to Financial Statements

c. Cash and Cash Equivalents

The Museum considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

d. Investments

Investments are reported at fair value based on quoted market prices including accrued interest. Changes in fair values as well as realized gains and losses are reflected in the statement of activities and change in net assets. Dividend and interest income are accrued when earned.

e. Fair Value Measurements

The Museum carries certain assets and liabilities at fair value. 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. The Museum classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs, and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

f. 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. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 10 years. As of June 30, 2022, the Museum's property and equipment was fully depreciated and/or amortized.

g. Revenue Recognition

Contributions and contributions receivable are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions, depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

San Jose Museum of Art Association

Notes to Financial Statements

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. A present value discount is estimated based on the risk-free 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, 2022 ranged between 2.26% and 3.25%.

In-kind rent is valued based on current prevailing downtown San Jose rent rates. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Museum would have paid for if not donated, are recorded at their estimated fair value at the time the services are rendered. Donated materials are valued and recorded as revenue at their fair value at the time the contribution is received. The estimated value of in-kind support is disclosed in Note 11.

The Museum has multiple revenue streams that are accounted for as contracts with customers including admissions, membership and store activities. The Museum recognizes revenue from ticket sales at the time of admission. Program revenue is recognized at the time the program is held. 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. Revenues derived from the Museum's store are recognized when cash is collected at the point of sale or when credit card receipts are collected within a few days of the sale.

Unearned revenue includes membership dues received in advance and amounts received for exhibits and events that will be presented in a future period.

h. Functional Expense Allocation

The cost of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and change in net assets.

Directly identifiable expenses are charged to the related program or service benefited. Salaries and related benefits are charged to the functional area of the employee who incurred the expense. Occupancy related expenses are allocated to the functional area based on square footage. Other expenses benefiting multiple functions are allocated based on head count.

i. Advertising

The Museum expenses advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2022 and 2021, totaled \$58,973 and \$42,163, respectively.

San Jose Museum of Art Association

Notes to Financial Statements

j. Income Taxes

The Museum 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 and 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 has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Management has evaluated the Museum's tax positions and concluded that all of the positions taken by the Museum in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

k. Use of Estimates

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

l. Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2021, from which the information was derived.

m. Reclassifications

Certain reclassifications have been made to the 2021 financial statements in order to conform to the 2022 presentation. These reclassifications had no impact on net assets or the change in net assets.

n. New Accounting Pronouncement Adopted

In September 2020, The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-07, Presentation and Disclosures by *Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The purpose of the ASU 2020-07 was to clarify the presentation and disclosure of contributed nonfinancial assets and to provide the reader of the financial statements a clearer understanding of the type of nonfinancial assets received and how they were used and recognized by the NFP. ASU 2020-07 was adopted for the Museum beginning July 1, 2021.

San Jose Museum of Art Association

Notes to Financial Statements

n. Subsequent Events

Management of the Museum has evaluated events and transactions from June 30, 2022, through September 14, 2022, the date these financial statements were available to be issued. Other than the item mentioned in Note 7, the Museum did not have any other subsequent events that required recognition or disclosure in the financial statements.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at June 30:

	2022	2021
Programs and other	\$ 1,763,371	\$ 1,588,949
Less: discounts to net present value	(61,837)	(94,561)
	<hr/>	<hr/>
	\$ 1,701,534	\$ 1,494,388

At June 30, 2022, \$1,413,371 of contributions receivable is expected to be collected in less than one year and \$350,000 is expected to be collected in one to five years. The Museum periodically evaluates the collectability 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, 2022 and 2021.

San Jose Museum of Art Association

Notes to Financial Statements

Note 4 - Investments and Fair Value Measurements:

The fair value of investments as of June 30, was as follows:

	2022			2021		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Without donor restrictions:						
Equity securities	\$ 59,070		\$ 59,070	\$ 73,811		\$ 73,811
Mutual funds		\$ 34,071	34,071		\$ 42,470	42,470
	59,070	34,071	93,141	73,811	42,470	116,281
With donor restrictions:						
Equity securities	7,327,438		7,327,438	8,833,244		8,833,244
Mutual funds		2,234,055	2,234,055		3,024,956	3,024,956
Government securities		1,006,537	1,006,537		1,376,285	1,376,285
	7,327,438	3,240,592	10,568,030	8,833,244	4,401,241	13,234,485
Total investments	\$ 7,386,508	\$ 3,274,663	\$ 10,661,171	\$ 8,907,055	\$ 4,443,711	\$ 13,350,766

Note 5 - Property and Equipment:

Property and equipment consisted of the following at June 30:

	2022	2021
Computer and media equipment	\$ 745,768	\$ 745,768
Leasehold improvements	613,310	613,310
Software	190,216	190,216
Furniture and fixtures	161,002	161,002
	1,710,296	1,710,296
Accumulated depreciation and amortization	(1,710,296)	(1,709,817)
	\$ -	\$ 479

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$479 and \$1,422, respectively.

As detailed in Note 11, In-Kind Rent and Other In-Kind Support, the City of San Jose provides facilities for the Museum at no charge. Improvements to the building made by the Museum have been recorded as leasehold improvements.

San Jose Museum of Art Association

Notes to Financial Statements

Note 6 - COVID-19 Pandemic and Government Funding:

During the year ended June 30, 2021, the Museum received loan proceeds in the amount of \$456,887 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, provided for loans to qualifying businesses for amounts up to 2.5 times their average monthly payroll expenses. On October 27, 2021, the loan and the accrued interest was forgiven and was recognized as revenue in the statement of activities and change in net assets.

The Museum applied for Employee Retention Credits (ERC) through the U.S. Department of the Treasury and received \$203,713 as of June 30, 2022. The amount was recognized as revenue in the accompanying statement of activities and changes in net assets. The Museum has also applied for additional funding through the ERC amounting to \$214,376 which is contingent on approval from the U.S Department of the Treasury and therefore, has not been recognized in the financial statements as of June 30, 2022.

Note 7 - Line of Credit:

In July 2022, the Museum was approved for a \$500,000 unsecured line of credit with Heritage Bank. The line of credit bears interest commensurate with the prime rate plus 0.5% (4.75% at June 30, 2022). The line of credit expires on August 9, 2024. The Museum is required to comply with certain financial and reporting covenants under the terms of the line of credit agreement.

Note 8 - Net Assets with Donor Restrictions:

Net assets with donor restrictions consisted of the following at June 30:

	2022	2021
Endowment accumulated earnings – unappropriated	\$ 2,171,299	\$ 4,953,994
Time restrictions	1,539,813	1,764,102
Gala	593,293	414,632
Exhibitions and education programs	999,906	352,140
Art acquisitions	31,166	88,013
Endowment funds	8,565,327	8,553,805
	<hr/>	<hr/>
	\$ 13,900,804	\$ 16,126,686

San Jose Museum of Art Association

Notes to Financial Statements

Net assets with donor restrictions released from restriction were as follows as of June 30:

	2022	2021
Operating Activities:		
Exhibitions and education programs	\$ 223,740	\$ 298,656
Endowment appropriations for operations	531,769	525,597
Time restrictions	689,184	679,089
Gala	575,869	338,000
Forgiveness of loan payable – Paycheck Protection Plan	456,887	466,316
	<hr/>	<hr/>
	2,477,449	2,307,658
Non-operating - art acquisitions	420,065	540,973
	<hr/>	<hr/>
	\$ 2,897,514	\$ 2,848,631

Note 9 - Endowment:

The Museum's donor-restricted endowment consists of donor-restricted endowment funds and a board-designated endowment fund. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Additionally, a fund was established by a donor through a community foundation, to support the mission and activities of the Museum. The fund is a permanent endowment fund with a balance of \$1,545,334 at June 30, 2022. These funds are not included on the statement of financial position of the Museum at June 30, 2022. Distributions received from the community foundation are recorded as contributions with donor restrictions and are subject to the Museum's endowment spending policy. During 2022 and 2021, there were \$78,410 and \$72,290 of distributions paid to the Museum.

San Jose Museum of Art Association

Notes to Financial Statements

a. Interpretation of Relevant law

The Board of Trustees of the Museum 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, the Museum classifies as net assets with donor restrictions (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 is also classified as net assets with donor restrictions, until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

b. Investment Return Objectives, Risk Parameters and Strategies

The primary objectives of the Museum's endowments are to support the operations of the Museum over time, while preserving the endowment'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, at acceptable risk levels.

The Museum holds 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 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.

c. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the net assets held in perpetuity balance. There were no deficiencies of this nature that would be required to be reported as of June 30, 2022 and 2021.

San Jose Museum of Art Association

Notes to Financial Statements

d. Spending Policy

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 of Trustees determines. The Board of Trustees can at its discretion approve distributions from the endowment funds to support the operations of the Museum up to the amount of 5% of the endowment'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 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 of Trustees. 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, 2022 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 93,141		\$ 93,141
Donor-restricted endowment funds		\$ 10,568,030	10,568,030
	\$ 93,141	\$ 10,568,030	\$ 10,661,171

Endowment net asset composition by type of fund as of June 30, 2021 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 116,281		\$ 116,281
Donor-restricted endowment funds		\$ 13,242,268	13,242,268
	\$ 116,281	\$ 13,242,268	\$ 13,358,549

San Jose Museum of Art Association

Notes to Financial Statements

Changes in endowment net assets for the fiscal year ended June 30, 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2021	\$ 116,281	\$ 13,242,268	\$ 13,358,549
Investment return, net	(17,897)	(2,205,355)	(2,223,252)
Contributions			
Distributions		78,410	78,410
Amount appropriated for expenditure	(5,243)	(547,293)	(552,536)
<u>Balance, June 20, 2022</u>	<u>\$ 93,141</u>	<u>\$ 10,568,030</u>	<u>\$ 10,661,171</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2020	\$ 95,274	\$ 12,046,624	\$ 12,141,898
Investment return, net	27,542	1,641,167	1,668,709
Contributions		7,784	7,784
Distributions		72,290	72,290
Amount appropriated for expenditure	(6,535)	(525,597)	(532,132)
<u>Balance, June 20, 2021</u>	<u>\$ 116,281</u>	<u>\$ 13,242,268</u>	<u>\$ 13,358,549</u>

Note 10 - Employee Benefit Plans:

The Museum makes contributions to a defined contribution 403(b) retirement plan for employees who have completed one year of service, and who have worked at least 1,000 hours during that year. Pension expense for the years ended June 30, 2022 and 2021 was \$107,365 and \$105,914, respectively.

San Jose Museum of Art Association

Notes to Financial Statements

Note 11 - In-Kind Rent and Other In-Kind Support:

In-kind contributions received by the Museum were as follows:

	2022	2021
In-kind rent	\$ 1,637,999	\$ 1,825,200
Volunteer services	125,303	166,080
Other	72,123	206,521
	<hr/>	<hr/>
Special events	1,835,425	2,197,801
	319,805	317,800
	<hr/>	<hr/>
Total in-kind support	\$ 2,155,230	\$ 2,515,601

The City of San Jose provides facilities for the Museum, the Museum's store, and the Museum's administrative offices at no charge to the Museum under the terms and conditions of a fifty-five year agreement dated June 1988. The Museum recognizes the in-kind rent as a gift that is conditional upon the Museum continuing to operate for the benefit of the public. The estimated fair value of rent for these facilities was \$1,637,999 and \$1,825,200 for the years ended June 30, 2022 and 2021, respectively. These amounts have been determined by an independent real estate professional and were recorded as support and expenses in the statement of activities and change in net assets. The value of the contributed in-kind rent was allocated to the Museum's programs, management and general and fundraising as shown on the statement of functional expenses based on estimates of square footage.

Volunteer services include hours donated by docents and other volunteers to run the Museum's programs. These services are recognized as in-kind revenues at their estimated fair value using estimated rates commensurate with rate that the Museum would expect to pay if the services were purchased. The Organization also receives a significant amount of donated services from other unpaid volunteers. No amounts have been recognized in the statements of activities for these fundraising and special projects services because the criteria for recognition have not been satisfied.

The Museum receives items to be sold at its annual special event auction. Contributed auction items are valued at their estimated fair value.

Other in-kind donations are valued at an estimated fair value at the time the contribution is received. Other in-kind contributions are allocated to an appropriate functional category based on the donated items usage.

San Jose Museum of Art Association

Notes to Financial Statements

Note 12 - Concentrations:

Contributions and grant for the years ended June 30, 2022 and 2021, included \$1,054,062 and \$973,329, respectively, received from the Board of Trustees. The Museum had contributions receivable from the Board of Trustees totaling \$781,767 and \$901,945 at June 30, 2022 and 2021, respectively.

The Museum receives contributions from organizations which a Board of Trustee is the owner or in an influential position. Such contributions and contributions receivable totaled \$118,000 and \$35,000, respectively, at June 30, 2022.

Note 13 - Liquidity and Availability of Resources:

The Museum's financial assets at June 30, 2022 and 2021 available for general expenditures over the next 12 months were as follows as of June 30:

Financial assets at year ended:	2022	2021
Cash and cash equivalents	\$ 3,692,256	\$ 3,795,389
Accounts receivable	21,021	82,161
Contributions receivable, net	1,701,534	1,494,388
Endowment investments	10,568,030	13,234,485
Investments	93,141	116,281
Total financial assets	16,075,982	18,722,704
Less: amounts unavailable for general expenditure within one year:		
Net assets with purpose restrictions	(1,607,945)	(854,785)
Long-term contributions receivable	(350,000)	(823,500)
Endowment investments:		
Subject to appropriation (excluding \$490,494 and \$453,307, respectively, of planned appropriation)	(1,647,045)	(4,500,635)
Held in perpetuity	(8,565,327)	(8,553,805)
Board designated for endowment	(88,484)	(110,467)
	(12,258,801)	(14,843,192)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,817,181	\$ 3,879,512

The Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.