

**San Jose Museum of Art Association**

Financial Statements

June 30, 2019  
(With Comparative Totals for 2018)



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 23



## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
San Jose Museum of Art Association  
San Jose, California

We have audited the accompanying financial statements of San Jose Museum of Art Association (a California nonprofit corporation) (the "Museum"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Museum of Art Association as of June 30, 2019, 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.

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Museum has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

### **Report on Summarized Comparative Information**

We have previously audited San Jose Museum of Art Association's 2018 financial statements, and our report dated November 16, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino<sup>LLP</sup>  
San Jose, California

November 4, 2019

San Jose Museum of Art Association  
Statement of Financial Position  
June 30, 2019  
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,689,460	\$ 260,496	\$ 1,949,956	\$ 1,925,602
Accounts receivable	41,958	5,343	47,301	63,100
Contributions receivable	233,361	2,481,631	2,714,992	1,292,552
Museum store inventory	66,745	-	66,745	68,948
Deferred exhibition costs and prepaids	130,896	-	130,896	120,907
Investments	102,386	10,871,888	10,974,274	10,742,320
Property and equipment, net	4,606	-	4,606	6,483
Beneficial interest in perpetual trust	-	930,117	930,117	930,117
Collection (Note 2)	-	-	-	-
	<u>\$ 2,269,412</u>	<u>\$ 14,549,475</u>	<u>\$ 16,818,887</u>	<u>\$ 15,150,029</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable	\$ 103,074	\$ -	\$ 103,074	\$ 62,017
Accrued liabilities	242,807	-	242,807	374,846
Unearned revenue	171,860	-	171,860	129,036
Total liabilities	<u>517,741</u>	<u>-</u>	<u>517,741</u>	<u>565,899</u>
<b>Net assets</b>				
Without donor restrictions	<u>1,751,671</u>	<u>-</u>	<u>1,751,671</u>	<u>1,686,050</u>
With donor restrictions				
Restricted for a specific purpose	-	1,095,120	1,095,120	888,177
Restricted to a passage of time	-	1,146,598	1,146,598	503,295
Subject to appropriation and spending policy	-	2,835,560	2,835,560	2,745,999
Held in perpetuity	-	9,472,197	9,472,197	8,760,609
Total with donor restrictions	<u>-</u>	<u>14,549,475</u>	<u>14,549,475</u>	<u>12,898,080</u>
Total net assets	<u>1,751,671</u>	<u>14,549,475</u>	<u>16,301,146</u>	<u>14,584,130</u>
Total liabilities and net assets	<u>\$ 2,269,412</u>	<u>\$ 14,549,475</u>	<u>\$ 16,818,887</u>	<u>\$ 15,150,029</u>

The accompanying notes are an integral part of these financial statements.

San Jose Museum of Art Association  
Statement of Activities  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Operating support and revenue				
Contributions and grants	\$ 1,563,020	\$ 2,641,793	\$ 4,204,813	\$ 2,649,119
Other in-kind support	424,146	-	424,146	315,767
Public programs	384,202	-	384,202	559,214
Special events, net	307,085	-	307,085	202,097
Museum store	200,920	-	200,920	222,761
Membership dues	169,315	-	169,315	173,230
Event rental income	87,700	-	87,700	54,300
Other revenue	24,091	-	24,091	12,939
Art class contracts and tuition	18,720	-	18,720	46,830
Net assets released from restriction	<u>2,289,384</u>	<u>(2,289,384)</u>	<u>-</u>	<u>-</u>
	5,468,583	352,409	5,820,992	4,236,257
In-kind rent	<u>2,340,000</u>	<u>-</u>	<u>2,340,000</u>	<u>2,340,000</u>
Total operating support and revenue	7,808,583	352,409	8,160,992	6,576,257
Operational expenses				
Program services				
Exhibitions	4,342,476	-	4,342,476	3,915,132
Education	1,547,483	-	1,547,483	1,718,491
Museum Store	469,129	-	469,129	462,724
Total program services	<u>6,359,088</u>	<u>-</u>	<u>6,359,088</u>	<u>6,096,347</u>
Support services				
Management and general	793,754	-	793,754	645,583
Fundraising	619,163	-	619,163	724,356
Total support services	<u>1,412,917</u>	<u>-</u>	<u>1,412,917</u>	<u>1,369,939</u>
Total operational expenses	<u>7,772,005</u>	<u>-</u>	<u>7,772,005</u>	<u>7,466,286</u>
Change in net assets from operations	<u>36,578</u>	<u>352,409</u>	<u>388,987</u>	<u>(890,029)</u>
Non-operating activities				
Endowment investment income, net	2,386	594,397	596,783	750,154
Endowment contributions	-	711,588	711,588	200,000
Contributions for art collection items	-	187,539	187,539	543,668
General investment income, net	1,493	-	1,493	4,901
Depreciation and amortization	(1,877)	-	(1,877)	(1,918)
Net assets released from restriction - art acquisition	194,538	(194,538)	-	-
Purchased art collection items	(167,497)	-	(167,497)	(575,244)
Separation payout	-	-	-	(20,137)
Total non-operating activities	<u>29,043</u>	<u>1,298,986</u>	<u>1,328,029</u>	<u>901,424</u>
Change in net assets	65,621	1,651,395	1,717,016	11,395
Net assets, beginning of year	<u>1,686,050</u>	<u>12,898,080</u>	<u>14,584,130</u>	<u>14,572,735</u>
Net assets, end of year	<u>\$ 1,751,671</u>	<u>\$ 14,549,475</u>	<u>\$ 16,301,146</u>	<u>\$ 14,584,130</u>

The accompanying notes are an integral part of these financial statements.

San Jose Museum of Art Association  
Statement of Functional Expenses  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)

	Program Services				Support Services			2019 Total	2018 Total
	Exhibitions	Education	Museum Store	Total Program Services	Management and General	Fundraising	Total Support Services		
Operating expenses									
Salaries and benefits									
Salaries and wages	\$ 1,266,510	\$ 533,682	\$ 103,719	\$ 1,903,911	\$ 374,514	\$ 242,518	\$ 617,032	\$ 2,520,943	\$ 2,375,912
Payroll taxes and benefits	237,247	93,005	21,453	351,705	53,441	57,238	110,679	462,384	422,804
Total salaries and benefits	<u>1,503,757</u>	<u>626,687</u>	<u>125,172</u>	<u>2,255,616</u>	<u>427,955</u>	<u>299,756</u>	<u>727,711</u>	<u>2,983,327</u>	<u>2,798,716</u>
In-kind rent	1,572,919	315,486	187,343	2,075,748	120,115	144,137	264,252	2,340,000	2,340,000
Outside services and security	380,457	69,143	28	449,628	63,339	20,945	84,284	533,912	525,477
Volunteer services	-	280,700	33,940	314,640	-	-	-	314,640	267,927
Shipping and storage	241,571	-	-	241,571	-	108	108	241,679	158,956
Marketing	205,035	-	-	205,035	3,166	5,314	8,480	213,515	162,544
Travel	57,064	76,687	943	134,694	13,073	1,895	14,968	149,662	257,932
In-kind support expense	30,766	34,469	517	65,752	15,676	28,078	43,754	109,506	47,840
Materials	41,730	56,929	-	98,659	6,567	1,394	7,961	106,620	95,758
Cost of goods sold	-	-	103,338	103,338	-	-	-	103,338	117,071
Catering	34,700	21,119	-	55,819	6,080	28,732	34,812	90,631	63,209
Equipment expenses	43,102	8,784	370	52,256	25,091	2,719	27,810	80,066	51,139
Telephone and utilities	23,655	10,258	2,235	36,148	24,421	14,263	38,684	74,832	74,394
Exhibition costs	64,778	9,029	-	73,807	-	-	-	73,807	143,863
Printing and web design	28,275	15,940	81	44,296	5,583	11,650	17,233	61,529	96,865
Software maintenance	26,487	-	1,141	27,628	9,656	18,120	27,776	55,404	43,077
Miscellaneous	26,717	12,040	1,339	40,096	1,327	12,807	14,134	54,230	51,419
Professional services	-	-	-	-	48,145	-	48,145	48,145	42,758
Insurance	37,491	2,358	1,466	41,315	1,936	1,168	3,104	44,419	41,444
Bank charges	4,140	2,384	8,452	14,976	623	17,604	18,227	33,203	39,410
Office supplies and postage	10,457	3,612	2,528	16,597	6,698	8,731	15,429	32,026	34,264
Recruiting	2,437	-	-	2,437	13,759	1,323	15,082	17,519	2,496
Conservation	6,399	-	-	6,399	-	-	-	6,399	1,300
Meetings and lunches	539	1,858	236	2,633	544	419	963	3,596	8,427
Total operating expenses	<u>4,342,476</u>	<u>1,547,483</u>	<u>469,129</u>	<u>6,359,088</u>	<u>793,754</u>	<u>619,163</u>	<u>1,412,917</u>	<u>7,772,005</u>	<u>7,466,286</u>
Non-operating expenses									
Purchased art collection items	167,497	-	-	167,497	-	-	-	167,497	575,244
Depreciation and amortization	939	563	188	1,690	94	93	187	1,877	1,918
Separation payout	-	-	-	-	-	-	-	-	20,137
Total non-operating expenses	<u>168,436</u>	<u>563</u>	<u>188</u>	<u>169,187</u>	<u>94</u>	<u>93</u>	<u>187</u>	<u>169,374</u>	<u>597,299</u>
	<u>\$ 4,510,912</u>	<u>\$ 1,548,046</u>	<u>\$ 469,317</u>	<u>\$ 6,528,275</u>	<u>\$ 793,848</u>	<u>\$ 619,256</u>	<u>\$ 1,413,104</u>	<u>\$ 7,941,379</u>	<u>\$ 8,063,585</u>
Percentage of total	<u>56.8 %</u>	<u>19.5 %</u>	<u>5.9 %</u>	<u>82.2 %</u>	<u>10.0 %</u>	<u>7.8 %</u>	<u>17.8 %</u>	<u>100.0 %</u>	

The accompanying notes are an integral part of these financial statements.

San Jose Museum of Art Association  
Statement of Cash Flows  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,717,016	\$ 11,395
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,877	1,918
Net realized gain on sale of investments	(135,412)	(193,810)
Net unrealized gain on investments	(57,431)	(221,046)
Contributions restricted for long-term purposes	(150,000)	(200,000)
Contributions restricted for art collection items	(187,539)	(543,668)
Art collection items purchased	167,497	575,244
Changes in operating assets and liabilities		
Accounts receivable	15,799	23,181
Contributions receivable	(1,422,440)	228,120
Museum store inventory	2,201	2,111
Deferred exhibition costs and prepaids	(9,989)	(30,674)
Accounts payable	41,059	(7,410)
Accrued liabilities	(132,039)	167,051
Unearned revenue	<u>42,824</u>	<u>(3,734)</u>
Net cash used in operating activities	<u>(106,577)</u>	<u>(191,322)</u>
Cash flows from investing activities		
Proceeds from sale or maturity of investments	642,631	1,080,987
Purchase of investments	(681,742)	(1,563,959)
Repayment of note receivable - related party	-	250,000
Purchased art collection items	<u>(167,497)</u>	<u>(575,244)</u>
Net cash used in investing activities	<u>(206,608)</u>	<u>(808,216)</u>
Cash flows from financing activities		
Proceeds from contributions from art collection items	187,539	543,668
Proceeds from contributions restricted for long-term purposes	<u>150,000</u>	<u>200,000</u>
Net cash provided by financing activities	<u>337,539</u>	<u>743,668</u>
Net increase (decrease) in cash and cash equivalents	24,354	(255,870)
Cash and cash equivalents, beginning of year	<u>1,925,602</u>	<u>2,181,472</u>
Cash and cash equivalents, end of year	<u>\$ 1,949,956</u>	<u>\$ 1,925,602</u>

The accompanying notes are an integral part of these financial statements.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

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 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, SJMA's off-site programs received the Creative Impact Award from the City of San Jose and the AIA Silicon Valley Social Responsibility Citation Award. With new programs offering free admission to students and their teachers, and the new free evening program Facebook First Fridays, on-site attendance increased 12%, and SJMA's economic impact on the region is estimated at \$10,743,000 based on the Americans for the Arts/ Arts & Economic Prosperity 5 Calculator calculation.

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, SJMA is a modern and contemporary art museum located near Plaza de César Chavez in downtown San José. 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 Museums Directors (AAMD). SJMA offers a dynamic exhibition program of ten or more rotating exhibitions and over forty public programs per year. SJMA presents the cutting-edge vision of California, national and international artists, and 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, e.g. 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. Through the fiscal year ended June 30, 2019, SJMA received funding to provide free school tours to some 4,000 students in Title I schools. SJMA 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 which increased 49%; and lectures, conversations, and symposia with artists that give the public close access to the creative process to a total of 78,000 art experiences.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

The Museum Store is located adjacent to SJMA's main lobby. This gift and book store 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

In accordance with generally accepted accounting principles, the Museum reports its financial position and activities in two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

- *Net assets without donor restrictions* - 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.
- *Net assets with donor restrictions* - include 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 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.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
  - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
  - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
  - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
  - e. Methods used to allocate costs among program and support functions.
  - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been adopted during the year ended June 30, 2019 and applied on a retrospective basis in 2018, with the option to omit the disclosures about liquidity and availability of resources for the prior year comparative period.

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.

Summarized 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, 2018, from which the summarized information was derived.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original 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.

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.

Museum store inventory

Museum store inventory is valued at the lower of cost or net realizable value 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 net assets with donor restrictions. When donor restrictions are met (either by passage of time or by use), net assets with donor restrictions are classified to net assets without donor restrictions 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  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (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 in the year acquired as non-operating decreases in the net assets without donor restrictions 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.

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 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. Depreciation and amortization is charged to the activity benefiting from the use of the property or equipment.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

The Museum reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2019 and 2018, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2019 and 2018, was \$137,768 and \$103,086, 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", public programs, membership dues, event rental and art class contracts and tuition 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 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  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-kind rent and in-kind support

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

Functional expense allocation

Indirect functional expenses are allocated to program and support services based on an analysis of salary dollars, headcount, and space utilized.

Advertising costs

The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2019 and 2018, totaled \$126,901 and \$131,955, respectively.

Income tax status

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

Uncertainty in income taxes

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

The Museum files information returns in the U.S. federal jurisdiction and state of California. The Museum's federal returns for the years ended June 30, 2016, and beyond remain subject to possible examination by the Internal Revenue Service. The Museum's California returns of the tax years ended June 30, 2015, and beyond remain subject to possible examination by the Franchise Tax Board.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Museum has evaluated events and transactions subsequent to June 30, 2019, for potential recognition or disclosure in the financial statements. The Museum did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 4, 2019.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	2019	2018
Programs and other	\$ 2,838,679	\$ 1,292,552
Less: discounts to net present value	(123,687)	-
	\$ 2,714,992	\$ 1,292,552

As of June 30, 2019, \$1,323,179 of contributions receivable is expected to be collected in less than one year and \$1,515,500 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, 2019 and 2018.

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, 2019, ranged between 2.26% and 3.25%.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

4. INVESTMENTS

All of the following investments are classified as Level 1 investments (see Note 2). The fair value of investments as of June 30, was as follows:

	2019	2018
Without donor restrictions		
Equity securities	\$ 61,871	\$ 57,907
Mutual funds	40,515	29,479
Fixed income securities	-	12,614
	102,386	100,000
With donor restrictions		
Equity securities	6,226,184	6,207,293
Mutual funds	3,420,167	3,288,265
Fixed income securities	1,225,537	1,146,762
	10,871,888	10,642,320
	\$ 10,974,274	\$ 10,742,320

Investment earnings consisted of the following:

	2019	2018
Realized and unrealized gain	\$ 192,843	\$ 414,856
Interest and dividends	378,897	313,674
Distribution from beneficial interest in perpetual trust	70,435	69,747
	642,175	798,277
Portfolio management expenses	(43,899)	(43,222)
	\$ 598,276	\$ 755,055

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
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	(1,705,690)	(1,703,813)
	\$ 4,606	\$ 6,483

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$1,877 and \$1,918, 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 to the Museum. Improvements to the building made by the Museum have been recorded as leasehold improvements.

6. 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 and the promise became unconditional.

As of June 30, 2019, the Museum has recognized \$930,117 in net assets with donor restrictions, 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 2). The present value of estimated future earnings was determined using an average rate of return, net of trustee fees of 4% and discount rates of 3% to 6%. The valuation has not changed from year to year and the balance has been consistently reported at \$930,117. The actual fair value of the underlying assets in the perpetual trust at June 30, 2019, was \$1,419,374.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

7. LINE OF CREDIT

The Museum renewed its \$500,000 unsecured line of credit with Heritage Bank on December 27, 2018. The line of credit bears interest commensurate with the bank's prime rate plus 0.5% (6.00% and 5.50% at June 30, 2019 and 2018, respectively). The Museum then amended the line of credit on February 19, 2019, in order to obtain access to a \$59,500 credit card reserve line, which does not increase the overall credit available, but adds to it if drawn on. The line of credit expires on January 21, 2021. The Museum is required to comply with certain financial and reporting covenants under the terms of the line of credit agreement. As of June 30, 2019 and 2018, the Museum was in compliance with the reporting covenants. There were no amounts outstanding under the line of credit as of June 30, 2019 or 2018.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Endowment accumulated earnings - unappropriated	\$ 2,835,560	\$ 2,745,999
Time restriction	1,146,598	503,295
Gala	530,491	268,600
Exhibitions and education programs	549,628	619,577
Art acquisitions	15,001	-
Endowment funds	8,542,080	7,830,492
Beneficial interest in perpetual trust	<u>930,117</u>	<u>930,117</u>
	<u>\$ 14,549,475</u>	<u>\$ 12,898,080</u>

Net assets with donor restrictions released from restriction during the year were as follows:

	<u>2019</u>	<u>2018</u>
Exhibitions and education programs	\$ 1,124,681	\$ 1,281,523
Non-operating art acquisitions	194,538	547,479
Endowment appropriations for operations	506,492	483,979
Time restriction	332,731	356,865
Gala	325,480	269,300
Director's fund	<u>-</u>	<u>5,413</u>
	<u>\$ 2,483,922</u>	<u>\$ 2,944,559</u>

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

9. ENDOWMENT

San Jose Museum of Art Association's donor-restricted endowment consists of two individual funds. Its endowment includes donor-restricted endowment funds and board-designated 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 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 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

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.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

9. ENDOWMENT (continued)

Investment return objectives, risk parameters and strategies (continued)

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

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

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 in unrestricted net assets as of June 30, 2019 and 2018.

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.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

9. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 102,386	\$ -	\$ 102,386
Donor-restricted endowment funds	<u>-</u>	<u>12,307,757</u>	<u>12,307,757</u>
	<u>\$ 102,386</u>	<u>\$ 12,307,757</u>	<u>\$ 12,410,143</u>

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 100,000	\$ -	\$ 100,000
Donor-restricted endowment funds	<u>-</u>	<u>11,506,608</u>	<u>11,506,608</u>
	<u>\$ 100,000</u>	<u>\$ 11,506,608</u>	<u>\$ 11,606,608</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2018	<u>\$ 100,000</u>	<u>\$ 11,506,608</u>	<u>\$ 11,606,608</u>
Investment return			
Interest and dividends	1,697	333,464	335,161
Net realized gain	-	135,412	135,412
Net unrealized gain	<u>689</u>	<u>56,742</u>	<u>57,431</u>
Total investment return	2,386	525,618	528,004
Contributions	-	711,588	711,588
Distribution from beneficial interest in perpetual trust	-	70,435	70,435
Amount appropriated for expenditure - operating	<u>-</u>	<u>(506,492)</u>	<u>(506,492)</u>
Balance, June 30, 2019	<u>\$ 102,386</u>	<u>\$ 12,307,757</u>	<u>\$ 12,410,143</u>

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

9. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2017	\$ -	\$ 11,040,433	\$ 11,040,433
Investment return			
Interest and dividends	-	265,551	265,551
Net realized gain	-	193,810	193,810
Net unrealized gain	-	<u>221,046</u>	<u>221,046</u>
Total investment return	-	680,407	680,407
Board-designated contributions	100,000	-	100,000
Contributions	-	200,000	200,000
Distribution from beneficial interest in perpetual trust	-	69,747	69,747
Amount appropriated for expenditure - operating	-	<u>(483,979)</u>	<u>(483,979)</u>
Balance, June 30, 2018	<u>\$ 100,000</u>	<u>\$ 11,506,608</u>	<u>\$ 11,606,608</u>

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, 2019 and 2018, was \$97,683 and \$81,329, 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.

11. IN-KIND RENT AND OTHER IN-KIND SUPPORT

The City of San Jose provides facilities for the Museum, the Museum's store, and administrative offices at no charge to the Museum under the terms and conditions of a fifty-five year agreement dated June 1988. The estimated fair value of rent for these facilities was \$2,340,000 and \$2,340,000 for the years ended June 30, 2019 and 2018, respectively. These amounts have been determined by an independent real estate professional and were recorded as support and expenses in the statement of activities for each of the years ended June 30, 2019 and 2018, respectively.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

11. IN-KIND RENT AND OTHER IN-KIND SUPPORT (continued)

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 and supplies of \$424,146 and \$315,767 have been recognized as in-kind support in the statement of activities for the years ended June 30, 2019 and 2018, 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 recognition as donated services. Accordingly, no amounts have been recognized for these services in the accompanying financial statements.

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

	2019	2018
In-kind rent	<u>\$ 2,340,000</u>	<u>\$ 2,340,000</u>
Other in-kind support		
Volunteer services	314,640	267,927
Museum parking spaces	32,400	32,400
Cloud subscription services	17,000	15,000
Pro bono professional services	-	440
Private events	10,106	-
Flight vouchers	<u>50,000</u>	<u>-</u>
	<u>424,146</u>	<u>315,767</u>
Special events in-kind support		
Special event auction items to be sold	<u>226,226</u>	<u>199,295</u>
	<u>\$ 2,990,372</u>	<u>\$ 2,855,062</u>

12. CONCENTRATIONS

Contribution support for the years ended June 30, 2019 and 2018, included \$2,254,048 and \$1,164,680, respectively, received from Board members. The Museum had contributions receivable from Board members totaling \$1,447,825 and \$399,875 at June 30, 2019 and 2018, respectively.

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Museum's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

San Jose Museum of Art Association  
Notes to Financial Statements  
June 30, 2019  
(With Comparative Totals for 2018)

13. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Long-term investments include endowment funds consisting of donor-restricted endowments. Income from donor-restricted endowments is restricted until appropriated in accordance with the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 9, the endowment has a spending rate of 5%. Accordingly, approximately \$450,567 of appropriations from the endowment will be available within the next 12 months. In addition, the Museum anticipates to receive \$70,000 from perpetual trusts.

The Museum expects that accounts receivables from program service fees revenue will be collected and available within 60 days of the fiscal year end.

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2019 to fund general expenditures and other obligations when they become due for one year. In the event of an unanticipated liquidity need, the Museum could also draw upon its \$500,000 line of credit.

Available financial assets consisted of the following:

Financial Assets	
Cash and cash equivalents	\$ 1,949,956
Investments	102,386
Accounts receivable	47,301
Contributions receivable	2,714,992
Endowment investments	10,871,888
Beneficial interest in perpetual trust	<u>930,117</u>
	<u>16,616,640</u>
Less: amounts unavailable for general expenditure within one year	
Restricted for a specified purpose	(1,095,120)
Restricted for passage of time	(649,559)
Subject to appropriation and spending policy (excluding \$450,567 of planned appropriation)	(2,384,993)
Held in perpetuity	(9,472,197)
Board - designated endowment (excluding \$5,119 of planned appropriation)	<u>(97,267)</u>
	<u>(13,699,136)</u>
	<u>\$ 2,917,504</u>