

SAN JOSE MUSEUM OF ART  
ASSOCIATION

JUNE 30, 2021

---

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **San Jose Museum of Art Association**

## **Independent Auditors' Report and Financial Statements**

---

**Independent Auditors' Report** 1 - 2

### **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 Financial Statements 7 - 19



A Century Strong

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **SAN JOSE MUSEUM OF ART ASSOCIATION (the Museum)**, which comprise the statement of financial position as of June 30, 2021, the related statements of activities and change in net assets, 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.

### **Auditors' 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 the Museum as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Museum's June 30, 2020 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated November 19, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Jose, California  
September 30, 2021

# San Jose Museum of Art Association

## Statement of Financial Position

*June 30, 2021 (with comparative totals for 2020)*

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,339,351	\$ 1,456,037	\$ 3,795,388	\$ 3,024,992
Accounts receivable	75,545	6,616	82,161	63,755
Contributions receivable, net	64,840	1,429,548	1,494,388	1,947,586
Museum store inventory	72,974		72,974	77,558
Deferred exhibition costs and prepaids	92,328		92,328	229,343
Investments	116,281	13,234,485	13,350,766	10,767,699
Property and equipment, net	479		479	1,901
<b>Total assets</b>	<b>\$ 2,761,798</b>	<b>\$ 16,126,686</b>	<b>\$ 18,888,484</b>	<b>\$ 16,112,834</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 144,312		\$ 144,312	\$ 76,976
Accrued liabilities	253,436		253,436	228,773
Unearned revenue	59,179		59,179	70,583
Loan payable - Paycheck Protection Program	456,887		456,887	466,316
<b>Total liabilities</b>	<b>913,814</b>		<b>913,814</b>	<b>842,648</b>
<b>Net Assets:</b>				
Without donor restrictions	1,847,984		1,847,984	1,778,309
With donor restrictions:				
Restricted for specific purposes		\$ 854,785	854,785	920,564
Restricted for passage of time		1,764,102	1,764,102	1,483,358
Subject to appropriation and spending policy		4,953,994	4,953,994	2,541,934
Held in perpetuity		8,553,805	8,553,805	8,546,021
<b>Total net assets</b>	<b>1,847,984</b>	<b>16,126,686</b>	<b>17,974,670</b>	<b>15,270,186</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,761,798</b>	<b>\$ 16,126,686</b>	<b>\$ 18,888,484</b>	<b>\$ 16,112,834</b>

See accompanying notes to financial statements.

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

*Year Ended June 30, 2021 (with comparative totals for 2020)*

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Support and Revenue:</b>				
Contributions and grants	\$ 746,994	\$ 2,212,732	\$ 2,959,726	\$ 3,376,697
Forgiveness of loan payable - Paycheck Protection Program	466,316		466,316	
Other in-kind support	236,559		236,559	201,363
Public programs and admissions	74,896		74,896	171,352
Special events, net	571,772		571,772	378,447
Museum store, net	9,856		9,856	67,653
Membership dues	148,895		148,895	155,446
Event rental income	10,500		10,500	51,850
Other income	8,256		8,256	15,294
Art class contracts and tuition	10,800		10,800	51,920
Net assets released from restrictions	2,307,658	(2,307,658)	-	-
Subtotal	4,592,502	(94,926)	4,497,576	4,470,022
In-kind rent	1,825,200		1,825,200	2,340,000
Total support and revenue	6,417,702	(94,926)	6,322,776	6,810,022
<b>Operating Expenses:</b>				
Program services:				
Exhibitions	3,380,598		3,380,598	4,009,445
Education	1,232,007		1,232,007	1,518,272
Museum store	265,189		265,189	351,791
Total program services	4,877,794	-	4,877,794	5,879,508
Support services:				
Management and general	885,895		885,895	877,721
Fundraising	612,605		612,605	544,232
Total support services	1,498,500		1,498,500	1,421,953
Total operating expenses	6,376,294	-	6,376,294	7,301,461
<b>Change in Net Assets from Operations</b>	41,408	(94,926)	(53,518)	(491,439)
<b>Non-Operating Activities:</b>				
Endowment investment income, net	24,834	3,017,380	3,042,214	258,612
Endowment contributions		7,784	7,784	3,944
In-kind contributions for art collection items	130,000		130,000	-
Contributions for art collection items		245,544	245,544	383,893
General investment income, net	4,855		4,855	(331)
Depreciation and amortization	(1,422)		(1,422)	(2,705)
Net assets released from restriction - art acquisition	540,973	(540,973)	-	-
In-kind other expense - non operating	(130,000)		(130,000)	-
Purchased art collection items	(540,973)		(540,973)	(252,817)
Total non-operating activities	28,267	2,729,735	2,758,002	390,596
	69,675	2,634,809	2,704,484	(100,843)
<b>Net Assets - beginning of year</b>	1,778,309	13,491,877	15,270,186	15,371,029
<b>Net Assets - end of year</b>	\$ 1,847,984	\$ 16,126,686	\$ 17,974,670	\$ 15,270,186

See accompanying notes to financial statements.

# San Jose Museum of Art Association

## Statement of Functional Expenses

Year Ended June 30, 2021 (with comparative totals for 2020)

	Program Services				Support Services			2021 Total	2020 Total
	Exhibitions	Education	Museum Store	Total Program Services	Management and General	Fundraising	Total Support Services		
<b>Operating Expenses:</b>									
Salaries and benefits:									
Salaries and wages	\$ 1,081,442	\$ 561,163	\$ 78,385	\$ 1,720,990	\$ 361,948	\$ 283,332	\$ 645,280	\$ 2,366,270	\$ 2,614,541
Payroll taxes and benefits	176,211	60,122	14,037	250,370	139,638	40,835	180,473	430,843	464,746
Total salaries and benefits	1,257,653	621,285	92,422	1,971,360	501,586	324,167	825,753	2,797,113	3,079,287
In-kind rent	1,207,020	241,927	147,299	1,596,246	109,500	119,454	228,954	1,825,200	2,340,000
Outside services and security	363,554	71,203	2,211	436,968	110,913	32,114	143,027	579,995	587,479
Shipping and storage	109,282	43	3	109,328		289	289	109,617	172,255
Volunteer services		164,940	1,140	166,080				166,080	144,756
Equipment expenses	89,714	24,839	6,594	121,147	7,845	6,411	14,256	135,403	121,001
Marketing	46,128	3,857	33	50,018	954	27	981	50,999	106,500
Materials	62,452	8,530	366	71,348	312	297	609	71,957	104,081
Telephone and utilities	55,988	17,626	4,845	78,459	34,346	23,159	57,505	135,964	90,711
Miscellaneous	36,692	9,117	1,761	47,570	31,070	25,063	56,133	103,703	69,169
Travel	6,001	249		6,250	3,934	114	4,048	10,298	59,272
Software maintenance	18,711	367	1,445	20,523	10,024	31,410	41,434	61,957	58,150
Exhibition costs	55,962	1,051		57,013				57,013	57,158
In-kind support expense	7,714	48,322	771	56,807	13,671	4,412	18,083	74,890	56,607
Professional services					53,325		53,325	53,325	51,915
Printing and web design	7,638	2,821	33	10,492	1,034	8,321	9,355	19,847	46,635
Catering	510	4,175		4,685	49		49	4,734	44,111
Insurance	38,988	2,569	1,564	43,121	1,288	1,893	3,181	46,302	41,812
Office supplies and postage	13,311	6,011	2,159	21,481	4,544	18,499	23,043	44,524	31,446
Bank charges	823	2,285	2,486	5,594	382	9,741	10,123	15,717	18,040
Meetings and lunches	301	790	57	1,148	1,118	200	1,318	2,466	14,220
Recruiting						7,034	7,034	7,034	4,100
Conservation	2,156			2,156				2,156	2,756
Total operating expenses	3,380,598	1,232,007	265,189	4,877,794	885,895	612,605	1,498,500	6,376,294	7,301,461
<b>Non-Operating Expenses:</b>									
In-kind other expense	130,000			130,000				130,000	
Purchased art collection items	540,973			540,973				540,973	252,817
Depreciation and amortization	711	426	142	1,279	72	71	143	1,422	2,705
Total operating and non-operating expenses	4,052,282	1,232,433	265,331	5,550,046	885,967	612,676	1,498,643	7,048,689	7,556,983
Percentage of total expense	57.49%	17.49%	3.76%	78.74%	12.57%	8.69%	21.26%	100.00%	100.00%
<b>Other Expenses Netted with Revenue:</b>									
Cost of goods sold			17,727	17,727				17,727	67,486
Special events						312,820	312,820	312,820	597,015
Total other expenses netted with revenue on the statement of activities and changes in net assets			17,727	17,727		312,820	312,820	330,547	664,501
Total expenses	\$ 4,052,282	\$ 1,232,433	\$ 283,058	\$ 5,567,773	\$ 885,967	\$ 925,496	\$ 1,811,463	\$ 7,379,236	\$ 8,221,484

See accompanying notes to financial statements.

# San Jose Museum of Art Association

## Statement of Cash Flows

<i>Year Ended June 30, 2021 (with comparative totals for 2020)</i>	2021	2020
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 2,704,484	\$ (100,843)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,422	2,705
Net realized gain on sale of investments	(23,753)	(116,754)
Net unrealized (gain) loss on investments	(2,394,160)	334,703
Forgiveness of loan payable - Paycheck Protection Program	(466,316)	
Contributions restricted for long-term purposes	(7,784)	(3,944)
Contributions restricted for art collection items	(245,545)	(383,893)
Art collection items purchased	540,973	252,817
Changes in operating assets and liabilities:		
Accounts receivable	(18,406)	(16,454)
Contributions receivable	453,198	767,406
Museum store inventory	4,584	(10,813)
Deferred exhibition costs and prepaids	137,015	(98,447)
Accounts payable	67,336	(26,098)
Accrued liabilities	24,663	(14,034)
Unearned revenue	(11,404)	(101,277)
<b>Net cash provided by operating activities</b>	<b>766,307</b>	<b>485,074</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale or maturity of investments	1,230,975	1,318,456
Purchases of investments	(1,396,129)	(1,329,830)
Purchased art collection items	(540,973)	(252,817)
<b>Net cash used by investing activities</b>	<b>(706,127)</b>	<b>(264,191)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of debt - Paycheck Protection Program	456,888	466,316
Proceeds from contributions for art collection items	245,545	383,893
Proceeds from contributions restricted for long-term purposes	7,783	3,944
<b>Net cash provided by financing activities</b>	<b>710,216</b>	<b>854,153</b>
<b>Change in Cash and Cash Equivalents</b>	<b>770,396</b>	<b>1,075,036</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>3,024,992</b>	<b>1,949,956</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 3,795,388</b>	<b>\$ 3,024,992</b>
<b>Supplemental Disclosure:</b>		
There were no amounts paid for taxes or interest in 2021 or 2020.		
Forgiveness of loan payable - Paycheck Protection Program	\$ 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 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.

### 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* - 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 and change in net assets as net assets released from restriction. Net assets held in perpetuity include those assets which are subject to a nonexpiring 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 - Quoted market prices (unadjusted) 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.

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, 2021 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, 2021 and 2020, totaled \$42,163 and \$102,653, 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, 2020, from which the information was derived.

m. Subsequent Events

Management of the Museum has evaluated events and transactions from June 30, 2021, through September 30, 2021, the date these financial statements were available to be issued. The Museum did not have any subsequent events that required recognition or disclosure in the financial statements.

# San Jose Museum of Art Association

## Notes to Financial Statements

**Note 3 - Contributions Receivable:**

Contributions receivable consisted of the following at June 30:

	2021	2020
Programs and other	\$ 1,588,949	\$ 2,062,762
Less: discounts to net present value	(94,561)	(115,176)
	\$ 1,494,388	\$ 1,947,586

At June 30, 2021, \$765,449 of contributions receivable is expected to be collected in less than one year and \$823,500 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, 2021 and 2020.

**Note 4 - Investments and Fair Value Measurements:**

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

	2021			2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Without donor restrictions:						
Equity securities	\$ 73,811	\$	73,811	\$ 55,140	\$	55,140
Mutual funds		\$ 42,470	42,470	\$ 40,134		40,134
	73,811	42,470	116,281	55,140	40,134	95,274
With donor restrictions:						
Equity securities	8,833,244		8,833,244	6,609,690		6,609,690
Mutual funds		3,024,956	3,024,956		3,084,672	3,084,672
Government securities		1,376,285	1,376,285		978,063	978,063
	8,833,244	4,401,241	13,234,485	6,609,690	4,062,735	10,672,425
<b>Total investments</b>	<b>\$ 8,907,055</b>	<b>\$ 4,443,711</b>	<b>\$ 13,350,766</b>	<b>\$ 6,664,830</b>	<b>\$ 4,102,869</b>	<b>\$ 10,767,699</b>

# San Jose Museum of Art Association

## Notes to Financial Statements

---

### Note 5 - Property and Equipment:

Property and equipment consisted of the following at June 30:

	2021	2020
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
	<hr/>	<hr/>
	1,710,296	1,710,296
Accumulated depreciation and amortization	(1,709,817)	(1,708,395)
	<hr/>	<hr/>
	\$ 479	\$ 1,901

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$1,422 and \$2,705, 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.

### Note 6 - Loan Payable:

During the year ended June 30, 2020, the Museum received loan proceeds in the amount of \$466,316 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses. The loan and accrued interest may be forgivable as long as the Museum uses the proceeds for eligible purposes. On March 17, 2021, the loan and the accrued interest was forgiven and was recognized in the statement of activities and change in net assets.

In February 2021, the Museum received \$456,887 in loan proceeds under the second draw of PPP (PPP2). The forgiveness process for the PPP2 loan generally will be done under similar terms and conditions as the first draw PPP.

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Museum intends to use the proceeds for purposes consistent with the PPP. While the Museum believes that its use of the loan proceeds will meet the conditions for forgiveness, the Museum will recognize the forgiveness when notified that forgiveness has been approved.

# San Jose Museum of Art Association

## Notes to Financial Statements

---

### Note 7 - Line of Credit:

The Museum has a \$500,000 unsecured line of credit with Heritage Bank. The line of credit bears interest commensurate with the prime rate plus 0.5% (3.75% at June 30, 2021 and 2020). The line of credit expires on February 26, 2022. 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, 2021, the Museum was in compliance with the reporting covenants. There were no amounts outstanding under the line of credit as of June 30, 2021 and 2020.

### Note 8 - Net Assets with Donor Restrictions:

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

	2021	2020
Endowment accumulated earnings – unappropriated	\$ 4,953,994	\$ 2,541,934
Time restrictions	1,764,102	1,483,358
Gala	414,632	295,614
Exhibitions and education programs	352,140	501,173
Art acquisitions	88,013	123,777
Endowment funds	8,553,805	8,546,021
	<hr/>	<hr/>
	\$ 16,126,686	\$ 13,491,877

Net assets with donor restrictions released from restriction were as follows during the year ended June 30:

	2021	2020
Operating Activities:		
Exhibitions and education programs	\$ 764,972	\$ 837,284
Endowment appropriations for operations	525,597	522,336
Time restrictions	679,089	588,776
Gala	338,000	471,550
	<hr/>	<hr/>
Subtotal	2,307,658	2,419,946
Non-operating: art acquisitions	540,973	252,817
	<hr/>	<hr/>
	\$ 2,848,631	\$ 2,672,763



# San Jose Museum of Art Association

## Notes to Financial Statements

---

### 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 \$1,809,379 at June 30, 2021. These funds are not included on the statement of financial position of the Museum at June 30, 2021. Distributions received from the community foundation are recorded as contributions with donor restrictions and are subject to the Museum's endowment spending policy. During 2021 and 2020, there were \$72,290 and \$71,769 of distributions paid to the Museum.

#### 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.

# San Jose Museum of Art Association

## Notes to Financial Statements

---

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, 2021 and 2020.

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, 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

Endowment net asset composition by type of fund as of June 30, 2020 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 95,274		\$ 95,274
Donor-restricted endowment funds		\$ 12,046,624	12,046,624
	\$ 95,274	\$ 12,046,624	\$ 12,141,898

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)
Balance, June 20, 2021	\$ 116,281	\$ 13,242,268	\$ 13,358,549

Changes in endowment net assets for fiscal year ended June 30, 2020 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2019	\$ 102,386	\$ 12,307,757	\$ 12,410,143
Investment return, net	1,354	257,258	258,612
Contributions		3,944	3,944
Amount appropriated for expenditure	(8,466)	(522,335)	(530,801)
Balance, June 20, 2020	\$ 95,274	\$ 12,046,624	\$ 12,141,898

# San Jose Museum of Art Association

## Notes to Financial Statements

---

### 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, 2021 and 2020 was \$105,914 and \$108,170, respectively.

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

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 \$1,825,200 and \$2,340,000 for the years ended June 30, 2021 and 2020, 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.

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 \$690,401 and \$482,237 have been recognized as in-kind support in the statement of activities and change in net assets for the years ended June 30, 2021 and 2020, 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:

	2021	2020
In-kind rent	\$ 1,825,200	\$ 2,340,000
Volunteer services	166,080	144,756
Special event auction items to be sold	317,800	178,600
Other	206,521	158,881
	<hr/>	<hr/>
	\$ 2,515,601	\$ 2,822,237

# San Jose Museum of Art Association

## Notes to Financial Statements

### Note 12 - Concentrations:

Contributions and grant for the years ended June 30, 2021 and 2020, included \$973,329 and \$871,322, respectively, received from the Board of Trustees. The Museum had contributions receivable from the Board of Trustees totaling \$901,945 and \$1,004,215 at June 30, 2021 and 2020, respectively.

The Museum receives contributions from organizations where a Board of Trustee is the owner or in an influential position. Such contributions and contributions receivable totaled \$153,300 and \$35,000, respectively, at June 30, 2021.

### Note 13 - Liquidity and Availability of Resources:

The Museum's financial assets at June 30, 2021 and 2020 that are available for general expenditures over the next 12 months were as follows as of June 30:

Financial assets at year ended:	2021	2020
Cash and cash equivalents	\$ 3,795,389	\$ 3,024,992
Investments	116,281	95,274
Accounts receivable	82,161	63,755
Contributions receivable, net	1,494,388	1,947,586
Endowment investments	13,234,485	10,672,425
<b>Total financial assets</b>	<b>18,722,704</b>	<b>15,804,032</b>
Less: amounts unavailable for general expenditure within one year:		
Net assets with purpose restrictions	(854,785)	(920,564)
Long-term contributions receivable	(823,500)	(1,120,000)
Endowment investments:		
Subject to appropriation (excluding \$453,359 and \$453,307, respectively, of planned appropriation)	(4,500,635)	(2,088,627)
Held in perpetuity	(8,553,805)	(8,546,021)
Board designated for endowment	(110,467)	(90,510)
	<b>(14,843,192)</b>	<b>(12,765,722)</b>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 3,879,512</b>	<b>\$ 3,038,310</b>

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