

SAN JOSE MUSEUM OF ART
ASSOCIATION

JUNE 30, 2020

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

San Jose Museum of Art Association

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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, 2020, 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, 2020, 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

The financial statements of the Museum as of and for the year ended June 30, 2019 were audited by another firm whose report dated November 4, 2019 expressed an unmodified audit opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
November 19, 2020

San Jose Museum of Art Association

Statement of Financial Position

June 30, 2020 (with comparative totals for 2019)

	2020			2019 Total (as restated)
	Without Donor Restrictions	With Donor Restrictions	Total	
Assets				
Cash and cash equivalents	\$ 2,033,978	\$ 991,014	\$ 3,024,992	\$ 1,949,956
Accounts receivable	59,847	3,908	63,755	47,301
Contributions receivable, net	123,056	1,824,530	1,947,586	2,714,992
Museum store inventory	77,558		77,558	66,745
Deferred exhibition costs and prepaids	229,343		229,343	130,896
Investments	95,274	10,672,425	10,767,699	10,974,274
Property and equipment, net	1,901		1,901	4,606
Total assets	\$ 2,620,957	\$ 13,491,877	\$ 16,112,834	\$ 15,888,770
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 76,976		\$ 76,976	\$ 103,074
Accrued liabilities	228,773		228,773	242,807
Unearned revenue	70,583		70,583	171,860
Loan payable - Paycheck Protection Program	466,316		466,316	-
Total liabilities	842,648		842,648	517,741
Net Assets:				
Without donor restrictions	1,778,309		1,778,309	1,751,671
With donor restrictions:				
Restricted for specific purposes		\$ 920,564	920,564	1,095,120
Restricted for passage of time		1,483,358	1,483,358	1,146,598
Subject to appropriation and spending policy		2,541,934	2,541,934	2,835,560
Held in perpetuity		8,546,021	8,546,021	8,542,080
Total net assets	1,778,309	13,491,877	15,270,186	15,371,029
Total liabilities and net assets	\$ 2,620,957	\$ 13,491,877	\$ 16,112,834	\$ 15,888,770

See accompanying notes to financial statements.

San Jose Museum of Art Association

Statement of Activities and Change in Net Assets

Year Ended June 30, 2020 (with comparative totals for 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue:				
Contributions and grants	\$ 1,476,510	\$ 1,900,187	\$ 3,376,697	\$ 4,204,813
Other in-kind support	201,363		201,363	424,146
Public programs and admissions	171,352		171,352	366,692
Special events, net	378,447		378,447	307,085
Museum store, net	67,653		67,653	97,582
Membership dues	155,446		155,446	169,315
Event rental income	51,850		51,850	87,700
Other income	15,294		15,294	24,091
Art class contracts and tuition	51,920		51,920	36,230
Net assets released from restrictions	2,419,946	(2,419,946)	-	-
Subtotal	4,989,781	(519,759)	4,470,022	5,717,654
In-kind rent	2,340,000		2,340,000	2,340,000
Total support and revenue	7,329,781	(519,759)	6,810,022	8,057,654
Operating Expenses:				
Program services:				
Exhibitions	4,009,445		4,009,445	4,342,476
Education	1,518,272		1,518,272	1,547,483
Museum store	351,791		351,791	365,791
Total program services	5,879,508	-	5,879,508	6,255,750
Support services:				
Management and general	877,721		877,721	793,754
Fundraising	544,232		544,232	619,163
Total support services	1,421,953		1,421,953	1,412,917
Total operating expenses	7,301,461	-	7,301,461	7,668,667
Change in Net Assets from Operations	28,320	(519,759)	(491,439)	388,987
Non-Operating Activities:				
Endowment investment income, net	1,354	257,258	258,612	596,783
Endowment contributions		3,944	3,944	711,588
Contributions for art collection items		383,893	383,893	187,539
General investment income, net	(331)		(331)	1,493
Depreciation and amortization	(2,705)		(2,705)	(1,877)
Net assets released from restriction - art acquisition	252,817	(252,817)	-	-
Purchased art collection items	(252,817)		(252,817)	(167,497)
Total non-operating activities	(1,682)	392,278	390,596	1,328,029
Change in Net Assets	26,638	(127,481)	(100,843)	1,717,016
Net Assets - beginning of year (as restated)	1,751,671	13,619,358	15,371,029	13,654,013
Net Assets - end of year	\$ 1,778,309	\$ 13,491,877	\$ 15,270,186	\$ 15,371,029

See accompanying notes to financial statements.

San Jose Museum of Art Association

Statement of Functional Expenses

Year Ended June 30, 2020 (with comparative totals for 2019)

	Program Services				Support Services			2020 Total	2019 Total
	Exhibitions	Education	Museum Store	Total Program Services	Management and General	Fundraising	Total Support Services		
Operating Expenses:									
Salaries and benefits:									
Salaries and wages	\$ 1,198,828	\$ 684,594	\$ 101,610	\$ 1,985,032	\$ 408,250	\$ 221,259	\$ 629,509	\$ 2,614,541	\$ 2,520,943
Payroll taxes and benefits	220,810	101,666	19,673	342,149	76,189	46,408	122,597	464,746	462,384
Total salaries and benefits	1,419,638	786,260	121,283	2,327,181	484,439	267,667	752,106	3,079,287	2,983,327
In-kind rent	1,562,852	301,530	187,343	2,051,725	132,126	156,149	288,275	2,340,000	2,340,000
Outside services and security	390,997	121,973	310	513,280	63,540	10,659	74,199	587,479	533,912
Shipping and storage	170,482	585	871	171,938		317	317	172,255	314,640
Volunteer services		122,996	21,760	144,756			-	144,756	241,679
Equipment expenses	49,752	24,876	2,507	77,135	31,263	12,603	43,866	121,001	213,515
Marketing	102,994			102,994	872	2,634	3,506	106,500	149,662
Materials	53,230	42,854		96,084	7,997		7,997	104,081	109,506
Telephone and utilities	31,046	12,559	2,522	46,127	31,246	13,338	44,584	90,711	106,620
Miscellaneous	25,357	6,440	1,392	33,189	23,060	12,920	35,980	69,169	48,145
Travel	35,866	9,277	683	45,826	12,688	758	13,446	59,272	90,631
Software maintenance	22,678	1,175	769	24,622	10,283	23,245	33,528	58,150	80,066
Exhibition costs	56,494	615		57,109	49		49	57,158	74,832
In-kind support expense	5,723	43,343	636	49,702	6,905		6,905	56,607	73,807
Professional services				-	51,915		51,915	51,915	61,529
Printing and web design	19,988	6,454	107	26,549	4,574	15,512	20,086	46,635	55,404
Catering	1,061	29,627		30,688	4,790	8,633	13,423	44,111	54,230
Insurance	34,923	2,277	1,415	38,615	2,018	1,179	3,197	41,812	44,419
Office supplies and postage	9,204	2,011	3,294	14,509	8,999	7,938	16,937	31,446	33,203
Bank charges	2,295	2,218	6,799	11,312	459	6,269	6,728	18,040	32,026
Meetings and lunches	12,109	1,135	100	13,344	498	378	876	14,220	17,519
Recruiting		67		67		4,033	4,033	4,100	6,399
Conservation	2,756			2,756			-	2,756	3,596
Total operating expenses	4,009,445	1,518,272	351,791	5,879,508	877,721	544,232	1,421,953	7,301,461	7,668,667
Non-Operating Expenses:									
Purchased art collection items	252,817			252,817			-	252,817	167,497
Depreciation and amortization	1,353	812	271	2,436	133	136	269	2,705	1,877
Total operating and non-operating expenses	4,263,615	1,519,084	352,062	6,134,761	877,854	544,368	1,422,222	7,556,983	7,838,041
Percentage of total	56.42%	20.10%	4.66%	81.18%	11.62%	7.20%	18.82%	100.00%	
Other Expenses Netted with Revenue:									
Cost of goods sold	51		67,435	67,486			-	67,486	103,338
Special events				-		597,015	597,015	597,015	505,469
Total other expenses netted with revenue on the statement of activities and changes in net assets	51		67,435	67,486		597,015	597,015	664,501	608,807
Total expenses	\$ 4,263,666	\$ 1,519,084	\$ 419,497	\$ 6,202,247	\$ 877,854	\$ 1,141,383	\$ 2,019,237	\$ 8,221,484	\$ 8,446,848

See accompanying notes to financial statements.

San Jose Museum of Art Association

Statement of Cash Flows

<i>Year Ended June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ (100,843)	\$ 1,717,016
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,705	1,877
Net realized gain on sale of investments	(116,754)	(135,412)
Net unrealized loss (gain) on investments	334,703	(57,431)
Contributions restricted for long-term purposes	(3,944)	(150,000)
Contributions restricted for art collection items	(383,893)	(187,539)
Art collection items purchased	252,817	167,497
Changes in operating assets and liabilities:		
Accounts receivable	(16,454)	15,799
Contributions receivable	767,406	(1,422,440)
Museum store inventory	(10,813)	2,201
Deferred exhibition costs and prepaids	(98,447)	(9,989)
Accounts payable	(26,098)	41,059
Accrued liabilities	(14,034)	(132,039)
Unearned revenue	(101,277)	42,824
Net cash provided (used) by operating activities	485,074	(106,577)
Cash Flows from Investing Activities:		
Proceeds from sale or maturity of investments	1,318,456	642,631
Purchases of investments	(1,329,830)	(681,742)
Purchased art collection items	(252,817)	(167,497)
Net cash used by investing activities	(264,191)	(206,608)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	466,316	-
Proceeds from contributions for art collection items	383,893	187,539
Proceeds from contributions restricted for long-term purposes	3,944	150,000
Net cash provided by financing activities	854,153	337,539
Change in Cash and Cash Equivalents	1,075,036	24,354
Cash and Cash Equivalents - beginning of year	1,949,956	1,925,602
Cash and Cash Equivalents - end of year	\$ 3,024,992	\$ 1,949,956

Supplemental Disclosure:

There were no amounts paid for taxes or interest in 2020 or 2019.

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 non-expiring donor restriction, such as endowments.

b. Permanent Art Collection

The collection consists of twentieth and twenty-first century artwork, including paintings, sculptures, installations, new media, photography, drawings, and prints, acquired through purchase or contribution. The collection is not recognized as an asset in the statement of financial position. Each work of art is inventoried and cared for, and activities verifying the collection's integrity are performed continuously. Purchases of art are recorded in the year acquired as non-operating decreases in net assets without donor restrictions in the year in which items are acquired. Proceeds from any deaccessions or insurance recoveries may be allocated for purposes that clearly benefit the collection, such as an acquisition fund to expand the collection or 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 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.

San Jose Museum of Art Association

Notes to Financial Statements

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.

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, 2020, 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.

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.

San Jose Museum of Art Association

Notes to Financial Statements

i. Advertising

The Museum expenses advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2020 and 2019, totaled \$102,653 and \$126,901, respectively.

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, 2019, from which the information was derived.

m. Reclassifications

Certain reclassifications have been made to the 2019 financial statements in order to conform to the 2020 presentation. These reclassifications had no impact on net assets or change in net assets.

San Jose Museum of Art Association

Notes to Financial Statements

n. New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) which clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. The Museum adopted this ASU on a modified prospective basis as of July 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The Museum adopted Topic 606 as amended, as of July 1, 2019. Analysis of various provisions of this standard resulted in no significant changes in the way the Museum recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a modified retrospective basis.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definition of Collections*. Under the clarified definition, proceeds from the sale of collection items can be used either to acquire new items or directly care for existing items already in possession. The ASU further requires an entity to disclose 1) if collection sale proceeds can in fact be used to acquire new items and/or for the direct care of existing collections; and 2) if using those proceeds for direct care is allowed and the entity's definition of "direct care." The ASU was adopted as of July 1, 2019 on a prospective basis.

o. Subsequent Events

Management of the Museum has evaluated events and transactions from June 30, 2020, through November 19, 2020, the date these financial statements were available to be issued. Other than the ongoing impact of COVID-19, which is discussed in Note 15, the Museum did not have any other subsequent events that required recognition or disclosure in the financial statements.

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	2020	2019
Programs and other	\$ 2,062,762	\$ 2,838,679
Less: discounts to net present value	(115,176)	(123,687)
	<u>\$ 1,947,586</u>	<u>\$ 2,714,992</u>

San Jose Museum of Art Association

Notes to Financial Statements

At June 30, 2020, \$942,762 of contributions receivable is expected to be collected in less than one year and \$1,120,000 is expected to be collected in one to five years. The Museum periodically evaluates the collectability of its contributions receivable based on historical experience. Uncollectible contributions are expected to be insignificant; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2020 and 2019.

Note 4 - Investments and Fair Value Measurements:

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

	2020			2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Without donor restrictions:						
Equity securities	\$ 55,140		\$ 55,140	\$ 61,871		\$ 61,871
Mutual funds		\$ 40,134	40,134		\$ 40,515	
	55,140	40,134	95,274	61,871	40,515	102,386
With donor restrictions:						
Equity securities	6,609,690		6,609,690	6,226,184		6,226,184
Mutual funds		3,084,672	3,084,672		3,420,167	3,420,167
Fixed income securities					1,225,537	1,225,537
Government securities		978,063	978,063			
	6,609,690	4,062,735	10,672,425	6,226,184	4,645,704	10,871,888
Total investments	\$ 6,664,830	\$ 4,102,869	\$ 10,767,699	\$ 6,288,055	\$ 4,686,219	\$ 10,974,274

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	2020	2019
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	(1,708,395)	(1,705,690)
	\$ 1,901	\$ 4,606

San Jose Museum of Art Association

Notes to Financial Statements

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$2,705 and \$1,877, 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.

Note 6 - Loan Payable:

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. The amount of loan forgiveness will be reduced if certain requirements are not met.

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.

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% and 6.00% at June 30, 2020 and 2019, respectively). 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, 2020, the Museum was in compliance with the reporting covenants. There were no amounts outstanding under the line of credit as of June 30, 2020 and 2019.

San Jose Museum of Art Association

Notes to Financial Statements

Note 8 - Net Assets with Donor Restrictions:

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

	2020	2019
Endowment accumulated earnings - unappropriated	\$ 2,541,934	\$ 2,835,560
Time restrictions	1,483,358	1,146,598
Gala	295,614	530,491
Exhibitions and education programs	501,173	549,628
Art acquisitions	123,777	15,001
Endowment funds	8,546,021	8,542,080
	<hr/>	<hr/>
	\$ 13,491,877	\$ 13,619,358

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

	2020	2019
Operating Activities:		
Exhibitions and education programs	\$ 837,284	\$ 1,124,681
Endowment appropriations for operations	522,336	506,492
Time restrictions	588,776	332,731
Gala	471,550	325,480
	<hr/>	<hr/>
Subtotal	2,419,946	2,289,384
Non-operating: art acquisitions	252,817	194,538
	<hr/>	<hr/>
	\$ 2,672,763	\$ 2,483,922

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 \$1,438,742 at June 30, 2020. These funds are not included on the statement of financial position of the Museum at June 30, 2020. Distributions received from the community foundation are recorded as contributions with donor restrictions and are subject to the Museum's endowment spending policy. During 2020 and 2019, there were \$71,769 and \$70,435 of distributions paid to the Museum.

San Jose Museum of Art Association

Notes to Financial Statements

a. Interpretation of relevant law

The Board of Trustees of the Museum has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is also classified as net assets with donor restrictions, until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

b. Investment return objectives, risk parameters and strategies

The primary objectives of the Museum's endowments are to support the operations of the Museum over time, while preserving the endowment's inflation-adjusted asset value. The current investment goals are to achieve average long-term total returns on assets (net of fees) that are at least 5.5% greater than the current annual inflation rate as measured by the Consumer Price Index, at acceptable risk levels.

The Museum holds a larger percentage of its assets in high-quality equities than in fixed income securities. The short-term volatility of the return from stocks dictates that a percentage of the assets are invested in fixed income securities that have low correlations with performance of equities, to provide an element of stability to the portfolio's return. Performance of the investment strategy is monitored by comparing returns to a properly weighted, blended benchmark.

San Jose Museum of Art Association

Notes to Financial Statements

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, 2020 and 2019.

d. Spending policy

The Museum 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 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, 2020 is 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

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

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

San Jose Museum of Art Association

Notes to Financial Statements

Changes in endowment net assets for the fiscal year ended June 30, 2020 is 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
<u>Amount appropriated for expenditure</u>	<u>(8,466)</u>	<u>(522,335)</u>	<u>(530,801)</u>
<u>Balance, June 20, 2020</u>	<u>\$ 95,274</u>	<u>\$ 12,046,624</u>	<u>\$ 12,141,898</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2018	\$ 100,000	\$ 11,506,611	\$ 11,606,611
Investment return, net	2,386	596,050	598,436
Contributions		711,588	711,588
<u>Amount appropriated for expenditure</u>		<u>(506,492)</u>	<u>(506,492)</u>
<u>Balance, June 20, 2019</u>	<u>\$ 102,386</u>	<u>\$ 12,307,757</u>	<u>\$ 12,410,143</u>

Note 10 - Employee Benefit Plans:

The Museum makes contributions to a defined contribution 403(b) retirement plan for employees who have completed one year of service, and who have worked at least 1,000 hours during that year. Pension expense for the years ended June 30, 2020 and 2019, was \$108,170 and \$97,683, respectively.

San Jose Museum of Art Association

Notes to Financial Statements

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 \$2,340,000 for the years ended June 30, 2020 and 2019. 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, 2020 and 2019, respectively.

Donated services are recognized as contributions at their fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise be purchased by the Museum if not provided by donations. Donated services and supplies of \$482,237 and \$424,146 have been recognized as in-kind support in the statement of activities and change in net assets for the years ended June 30, 2020 and 2019, 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:

	2020	2019
In-kind rent	\$ 2,340,000	\$ 2,340,000
Volunteer services	144,756	314,640
Special event auction items to be sold	178,600	226,226
Other	158,881	109,506
	<hr/>	<hr/>
	\$ 2,822,237	\$ 2,990,372

Note 12 - Concentrations:

Contribution support for the years ended June 30, 2020 and 2019, includes \$871,322 and \$2,254,048, respectively, received from the Board of Trustees. The Museum has contributions receivable from the Board of Trustees totaling \$1,004,215 and \$1,447,825 at June 30, 2020 and 2019, respectively.

San Jose Museum of Art Association

Notes to Financial Statements

Note 13 - Liquidity and Availability of Resources:

The Museum's financial assets at June 30, 2020 and 2019 that are available for general expenditures over the next 12 months are as follows:

Financial assets at year ended:	2020	2019
Cash and cash equivalents	\$ 3,024,992	\$ 1,949,956
Investments	95,274	102,386
Accounts receivable	63,755	47,301
Contributions receivable	1,947,586	2,714,992
<u>Endowment investments</u>	<u>10,672,425</u>	<u>10,871,888</u>
Total financial assets	15,804,032	15,686,523
Less: amounts unavailable for general expenditure within one year:		
Net assets with purpose restrictions	(920,564)	(1,095,120)
Less net asset with restrictions to be met in less than one year	333,064	436,120
Long-term contributions receivable	(1,120,000)	(1,515,500)
Endowment investments:		
Subject to appropriation (excluding \$453,307 and \$450,567, respectively, of planned appropriation)	(2,088,627)	(2,384,993)
Held in perpetuity	(8,546,021)	(8,546,021)
Board designated for endowment (excluding \$4,764 and \$5,119, respectively, of planned appropriations)	(90,510)	(97,267)
	<u>(12,432,658)</u>	<u>(13,202,781)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,372,374	\$ 2,483,742

The Museum 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

Note 14 - Change in Accounting Method:

In 2020, the Museum elected to change its method of accounting for a beneficial interest in perpetual trust on a retrospective basis. The beneficial interest in trust was carried on the statement of financial position at the estimated present value of future earnings to be received. Because of the inherent uncertainty in estimating earnings on funds held in perpetuity, the Museum elected to remove this from the statement of financial position and to continue to record the distributions as income in the period received. This was considered a change from one acceptable treatment under U.S. GAAP to another acceptable treatment.

The impact of the change in accounting for the year ending June 30, 2019 on the statement of financial position is as follows:

	As Previously Reported	Change	As Restated
Beneficial interest in perpetual trust	\$ 930,117	\$ (930,117)	
Net assets with donor restrictions held in perpetuity	\$ 9,472,197	\$ (930,117)	\$ 8,542,080
Total net assets	\$ 16,301,146	\$ (930,117)	\$ 15,371,029

Note 15 - Subsequent Events:

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. Many federal, state, and local governmental agencies have declared a state of emergency and issued a variety of recommendations impacting travel, group gatherings, etc. The impact on the Museum included its closure since March 2020 and the cancellation of many public facing and fundraising events for the remainder of calendar 2020. In addition, financial market volatility has significantly increased which may negatively impact net investment income.