

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

FINANCIAL STATEMENTS

Year Ended June 30, 2010 with Comparative Totals
for the Year Ended June 30, 2009

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

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EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
San Jose Museum of Art Association
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the accompanying statement of financial position of San Jose Museum of Art Association (a California nonprofit public benefit corporation) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the San Jose Museum of Art Association's financial statements for the year ended June 30, 2009 and, in our report dated January 19, 2010, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Museum of Art Association as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
September 29, 2010

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

STATEMENT OF FINANCIAL POSITION

June 30, 2010 with Comparative Totals as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	
				2010	2009
ASSETS:					
Cash and Cash Equivalents	\$ 266,528	\$ 633,926	\$ 119,732	\$ 1,020,186	\$ 2,367,152
Accounts Receivable	8,217	-	7,971	16,188	35,610
Interfund Receivables and Payables	(516,532)	213,310	303,222	-	-
Contributions Receivable	486,161	111,225	539,882	1,137,268	1,247,000
Museum Store Inventory	90,024	-	-	90,024	120,240
Note Receivable - Related Party	250,000	-	-	250,000	-
Deferred Exhibition Costs and Prepaids	20,219	-	-	20,219	38,849
Investments	59,515	-	5,657,483	5,716,998	3,454,507
Property and Equipment, Net	156,670	-	-	156,670	234,078
Beneficial Interest in Perpetual Trust	-	-	930,117	930,117	930,117
TOTAL ASSETS	\$ 820,802	\$ 958,461	\$ 7,558,407	\$ 9,337,670	\$ 8,427,553
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Line of Credit	\$ -	\$ -	\$ -	\$ -	\$ 100,000
Accounts Payable	87,759	-	-	87,759	103,312
Accrued Liabilities	238,129	-	-	238,129	266,826
Unearned Revenue	64,063	-	-	64,063	35,562
Notes Payable	18,793	-	-	18,793	381,322
Total Liabilities	408,744	-	-	408,744	887,022
NET ASSETS:					
Unrestricted Net Assets:					
General Activities	412,058	-	-	412,058	(228,391)
Endowment Investment Activities	-	-	-	-	(216,520)
Total Unrestricted Net Assets	412,058	-	-	412,058	(444,911)
Temporarily Restricted Net Assets	-	958,461	-	958,461	666,916
Permanently Restricted Net Assets	-	-	7,558,407	7,558,407	7,318,526
Total Net Assets	412,058	958,461	7,558,407	8,928,926	7,540,531
TOTAL LIABILITIES AND NET ASSETS	\$ 820,802	\$ 958,461	\$ 7,558,407	\$ 9,337,670	\$ 8,427,553

The Accompanying Notes are an Integral Part of these Financial Statements.

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

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	2010					2009	
	Unrestricted			Temporarily Restricted	Permanently Restricted	TOTAL	TOTAL
	General Activities	Endowment Investment Activities	Total				
OPERATING SUPPORT AND REVENUE:							
Contributions	\$ 2,002,507	\$ -	\$ 2,002,507	\$ 858,166	\$ -	\$ 2,860,673	\$ 3,015,517
SVCF Contribution	358,292	-	358,292	-	239,881	598,173	-
Other In-Kind Support	344,284	-	344,284	-	-	344,284	319,883
Membership Dues	221,713	-	221,713	-	-	221,713	229,541
Museum Store	278,681	-	278,681	-	-	278,681	249,064
Special Event Revenue	119,170	-	119,170	22,000	-	141,170	165,900
Less: Direct Expenses:	(122,213)	-	(122,213)	-	-	(122,213)	-
Event Rental Income	118,050	-	118,050	-	-	118,050	188,421
Art Class Contracts and Tuition	48,830	-	48,830	-	-	48,830	49,704
Public Programs	268,622	-	268,622	-	-	268,622	245,327
Other Revenue	38,802	-	38,802	-	-	38,802	99,868
	<u>3,676,738</u>	<u>-</u>	<u>3,676,738</u>	<u>880,166</u>	<u>239,881</u>	<u>4,796,785</u>	<u>4,563,225</u>
In-Kind Rent	<u>1,404,000</u>	<u>-</u>	<u>1,404,000</u>	<u>-</u>	<u>-</u>	<u>1,404,000</u>	<u>1,638,001</u>
Total Operating Support and Revenue	5,080,738	-	5,080,738	880,166	239,881	6,200,785	6,201,226
Net Assets Released from Restrictions - Operations	<u>811,492</u>	<u>-</u>	<u>811,492</u>	<u>(811,492)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Support, Revenue and Net Assets Released from Restrictions	<u>5,892,230</u>	<u>-</u>	<u>5,892,230</u>	<u>68,674</u>	<u>239,881</u>	<u>6,200,785</u>	<u>6,201,226</u>
OPERATING EXPENSES:							
Program Services:							
Exhibitions	2,528,119	-	2,528,119	-	-	2,528,119	2,658,292
Education	766,870	-	766,870	-	-	766,870	1,272,514
Museum Store	427,450	-	427,450	-	-	427,450	447,437
Total Program Services	<u>3,722,439</u>	<u>-</u>	<u>3,722,439</u>	<u>-</u>	<u>-</u>	<u>3,722,439</u>	<u>4,378,243</u>
Supporting Services:							
Management and General	781,543	-	781,543	-	-	781,543	797,274
Fundraising	700,677	-	700,677	-	-	700,677	674,595
Total Supporting Services	<u>1,482,220</u>	<u>-</u>	<u>1,482,220</u>	<u>-</u>	<u>-</u>	<u>1,482,220</u>	<u>1,471,869</u>
Total Operating Expenses	<u>5,204,659</u>	<u>-</u>	<u>5,204,659</u>	<u>-</u>	<u>-</u>	<u>5,204,659</u>	<u>5,850,112</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>687,571</u>	<u>-</u>	<u>687,571</u>	<u>68,674</u>	<u>239,881</u>	<u>996,126</u>	<u>351,114</u>
NONOPERATING ACTIVITIES:							
Contributions for Art Collection Items	-	-	-	135,271	-	135,271	99,960
Net Assets Released from Restrictions - Art Acquisitions	115,139	-	115,139	(115,139)	-	-	-
Purchased Art Collection Items	(97,143)	-	(97,143)	-	-	(97,143)	(117,956)
Depreciation and Amortization	(77,408)	-	(77,408)	-	-	(77,408)	(56,229)
General Investment Income, Net	19,145	-	19,145	-	-	19,145	16,448
Endowment Investment Income/(Loss), Net	-	216,520	216,520	202,739	-	419,259	(752,227)
Interest Expense	(6,855)	-	(6,855)	-	-	(6,855)	(6,415)
Total Nonoperating Activities	<u>(47,122)</u>	<u>216,520</u>	<u>169,398</u>	<u>222,871</u>	<u>-</u>	<u>392,269</u>	<u>(816,419)</u>
CHANGE IN NET ASSETS	640,449	216,520	856,969	291,545	239,881	1,388,395	(465,305)
NET ASSETS, Beginning of Year	<u>(228,391)</u>	<u>(216,520)</u>	<u>(444,911)</u>	<u>666,916</u>	<u>7,318,526</u>	<u>7,540,531</u>	<u>8,005,836</u>
NET ASSETS, End of Year	<u>\$ 412,058</u>	<u>\$ -</u>	<u>\$ 412,058</u>	<u>\$ 958,461</u>	<u>\$ 7,558,407</u>	<u>\$ 8,928,926</u>	<u>\$ 7,540,531</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL	
	Exhibitions	Education	Museum Store	Total	Management and General	Fundraising	Total	2010	2009
OPERATING EXPENSES:									
Salaries and Wages	\$ 819,741	\$ 283,959	\$ 117,328	\$ 1,221,028	\$ 362,207	\$ 312,681	\$ 674,888	\$ 1,895,916	\$ 2,103,562
Payroll Taxes and Benefits	101,303	37,689	14,033	153,025	48,327	39,357	87,684	240,709	418,941
Total Salaries and Related Expenses	921,044	321,648	131,361	1,374,053	410,534	352,038	762,572	2,136,625	2,522,503
In-Kind Rent	910,530	167,946	115,494	1,193,970	105,015	105,015	210,030	1,404,000	1,638,001
Outside Services and Security	247,811	18,504	1,007	267,322	82,909	44,541	127,450	394,772	154,183
Volunteer Services	-	200,305	29,938	230,243	21,625	-	21,625	251,868	225,406
Exhibition Costs	174,449	-	-	174,449	-	-	-	174,449	53,213
Cost of Goods Sold	-	-	135,266	135,266	-	-	-	135,266	112,335
In-Kind Support Expense	26,984	22,800	-	49,784	-	42,632	42,632	92,416	94,477
Shipping and Storage	75,024	-	1,010	76,034	5,440	98	5,538	81,572	153,456
Insurance	55,509	1,716	1,180	58,405	1,072	1,073	2,145	60,550	35,708
Catering	44	190	-	234	138	59,065	59,203	59,437	41,029
Marketing	52,559	-	-	52,559	1,804	339	2,143	54,702	82,664
Legal and Accounting	-	-	-	-	51,290	-	51,290	51,290	56,419
Telephone and Utilities	16,375	6,379	1,800	24,554	14,679	10,700	25,379	49,933	48,873
Bank Charges	-	388	6,201	6,589	23,312	16,076	39,388	45,977	50,158
Miscellaneous	11,698	4,497	999	17,194	16,019	5,728	21,747	38,941	53,357
Travel	6,549	1,215	171	7,935	8,950	21,874	30,824	38,759	20,796
Materials	14,340	13,301	2,188	29,829	5,805	770	6,575	36,404	68,462
Printing and Web Design	1,951	1,195	-	3,146	1,663	22,737	24,400	27,546	37,004
Equipment Expenses	9,184	-	-	9,184	16,938	-	16,938	26,122	28,971
Office Supplies	1,201	6,443	611	8,255	8,504	6,896	15,400	23,655	9,534
Postage	710	343	160	1,213	1,818	10,792	12,610	13,823	17,422
Recruiting	75	-	-	75	3,925	100	4,025	4,100	589
Security	-	-	-	-	-	-	-	-	322,993
Conservation	1,882	-	-	1,882	-	-	-	1,882	1,673
Meetings and Lunches	-	-	64	64	103	203	306	370	19,751
Copying	200	-	-	200	-	-	-	200	1,135
Total Operating Expenses	2,528,119	766,870	427,450	3,722,439	781,543	700,677	1,482,220	5,204,659	5,850,112
NONOPERATING EXPENSES:									
Purchased Art Collection Items	97,143	-	-	97,143	-	-	-	97,143	117,956
Depreciation and Amortization	38,704	23,222	7,741	69,667	3,871	3,870	7,741	77,408	56,229
Interest Expense	-	-	-	-	6,735	120	6,855	6,855	6,415
Total Functional Expenses	\$ 2,663,966	\$ 790,092	\$ 435,191	\$ 3,889,249	\$ 792,149	\$ 704,667	\$ 1,496,816	\$ 5,386,065	\$ 6,030,712
Percentage of Total	49.5 %	14.7 %	8.1 %	72.2 %	14.7 %	13.1 %	27.8 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,388,395	\$ (465,305)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	77,408	56,229
Net Realized (Gain) Loss on Sale of Investments	(242,671)	354,002
Net Unrealized (Gain) Loss on Investments	(48,690)	533,550
Reinvested Dividends and Interest, Net of Fees	(62)	(162)
(Increase) Decrease in Assets:		
Accounts Receivable	19,422	(13,077)
Contributions Receivable	109,732	(328,000)
Museum Store Inventory	30,216	15,983
Deferred Exhibition Costs and Prepaids	18,630	2,241
Increase (Decrease) in Liabilities:		
Accounts Payable	(15,553)	(152,055)
Accrued Liabilities	(28,697)	60,129
Unearned Revenue	28,501	(106,133)
	<u>1,336,631</u>	<u>(42,598)</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale or Maturity of Investments	4,010,609	1,227,745
Purchase of Investments	(5,981,677)	(728,756)
Purchase of Property and Equipment	-	(62,067)
Cash Paid for Notes Receivable	(250,000)	-
	<u>(2,221,068)</u>	<u>436,922</u>
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Borrowings	-	350,000
Repayment of Borrowings	(462,529)	(362,528)
	<u>(462,529)</u>	<u>(12,528)</u>
Net Cash Used by Financing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,346,966)	381,796
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,367,152</u>	<u>1,985,356</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,020,186</u>	<u>\$ 2,367,152</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	<u>\$ 7,294</u>	<u>\$ 5,846</u>
Noncash Financing Activity - Debt Offset by Distribution from Arts Fund	<u>\$ 350,000</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

San Jose Museum of Art Association (the "Museum" or "SJMA") is a California nonprofit public benefit corporation incorporated in 1969. The Museum's mission is to foster the awareness, appreciation and understanding of twentieth and twenty-first century art in the diverse audiences of the San Francisco Bay Area. The Museum achieves its mission through exhibitions, education programs, collections, publications, and outreach programs, all of which are designed to serve, engage and enrich the individual and the community. The Museum also owns and operates a store located in the museum.

The Museum's operations are partly dependent on the support of the City of San Jose through grants and its donation of in-kind rent.

NOTE 2 - PROGRAM SERVICES:

Exhibitions

The San Jose Museum of Art is a leading showcase in the Bay Area for modern and contemporary art. The Museum has earned a reputation for its fresh, distinctive exhibitions, which are conceived to engage Museum visitors of many ages, income levels, and cultural backgrounds. SJMA's exhibitions address major trends in international contemporary art, with an ongoing commitment to highlight the work of emerging artists and the history of California art. The Museum strives to make significant contributions to art-historical scholarship; address prescient issues of interest to the general public; and offer programs that reflect the rich ethnic and racial diversity of its communities. The Museum presents nine to twelve exhibitions each year, including one-person and thematic group exhibitions that range from traditional painting to exploratory new-media installations. The curatorial staff organizes about half of the exhibitions in a given season. In-house exhibitions are frequently accompanied by scholarly publications and travel to other museums across the country. Given its location in the heart of the high-technology culture of Silicon Valley, the Museum has a substantial commitment to new work in new media as well as to initiating special artistic commissions that reflect the cultural diversity and character of its region.

Education

The Museum Experience and Education Department is dedicated to providing enriching visual art experiences to a broad spectrum of the community. The department is widely known for its commitment to accessibility; hands-on family activity stations in the galleries; and award-winning high-tech interpretation. (SJMA was the first museum to adopt cell phone tours and a leader in iPod usage.) SJMA is the largest provider of arts education in the schools in greater Santa Clara County. SJMA is dedicated to furthering online and e-learning capabilities and to opening 21st-century doorways to art—to pioneering dynamic new ways to provide rich context for the art on view and to amplify audiences' experiences. SJMA has been recognized by two "MUSE" awards from the American Association of Museums for its use of new interactive, tech-based activities in the galleries and on the Web, e.g. YouTube, Flickr, Facebook, podcasts, digital timelines, and iPod Touch tours. The Museum is proud to offer a spectrum of educational programming that provides critical early exposure to the visual arts for tens of thousands of students in grades kindergarten through twelve; tours, workshops, in-class presentations, curriculum guides.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

The Museum serves over 37,000 young people who participate in over 50,000 hands-on experiences annually. The Museum provides lectures, symposia, educator-led tours in the galleries (often paired with hands-on art activities); an in-school art docent program that teaches visual thinking skills; sequential in-school art-making workshops (often combined with gallery tours); professional development opportunities for teachers; free family-oriented Community Days with hands-on activities and a variety of performances; Kids Summer Art Camp, week-long adventures into art-making that are linked to current exhibitions; and programs with artists that give the public close access to the creative process. In addition, the employees of corporate partners are invited to a biannual event called Tech Connect which is an immersive night of art, docent tours, hands-on art-making projects, and interactive interpretation activities in the galleries.

SJMA is midstream in the process of rebuilding its web site to enable smoother information delivery, web-based access to the collection, and additional participatory educational and curatorial projects.

Museum Store

The Museum Store is located off the main lobby of SJMA. This active gift and book store carries mission-related products that are educational, foster creativity, and encourage the appreciation of art. The Museum Store also features custom products by area artists and craftsmen as well as merchandise relevant to each current season of exhibitions. The store is staffed by Museum employees as well as an active contingent of longtime volunteers.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Basis of Presentation - The Museum follows standards of accounting and financial reporting as prescribed by the American Institute of Certified Public Accountants. In accordance with generally accepted accounting principles, the Museum reports its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Trustees has discretionary control in carrying out the operations of the Museum. Under this category, the Museum maintains an operating fund, plus any net assets designated by the Board for specific purposes.

Temporarily restricted net assets include contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The Museum maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Museum has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Museum Store Inventory - Museum store inventory is valued at the lower of cost (first-in, first-out) or market and consists primarily of books and other education and exhibition-related items held for sale.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Museum's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Permanent Art Collection - The collection consists of twentieth and twenty-first century artwork, including paintings, sculptures, installations, new media, photography, drawings and prints, acquired through purchase or contribution. The collection is not recognized as an asset in the statement of financial position. Each work of art is inventoried and cared for, and activities verifying the collection's integrity are performed continuously. Purchases of art are recorded as non-operating decreases in the unrestricted net assets in the year in which items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from any deaccessions or insurance recoveries are required to be used to acquire other works of art.

Accounts and Contributions Receivable - The Museum considers all accounts and contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Purchases of individual items of property and equipment with a cost greater than \$3,000 are capitalized. In addition, items with individual costs exceeding \$2,500 with a total invoice cost of \$8,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 10 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Impairment of Long-Lived Assets - The Museum reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2010 and 2009 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, 2010 and 2009, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2010 and 2009 was \$80,464 and \$84,391, respectively.

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenue Recognition - The Museum recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Unearned Revenue - Membership dues received in advance are deferred and recognized as revenue over the periods to which the dues relate. Unearned revenue also includes amounts received for exhibits that will be presented in a future period.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

In-Kind Rent and Donated Services - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Museum would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The estimated value of these services is disclosed in Note 16.

Allocation of Indirect Functional Expenses - Indirect functional expenses are allocated to program and supporting services based on an analysis of salary dollars, headcount and space utilized.

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

Uncertainty in Income Taxes - Effective July 1, 2009 the Museum implemented the new accounting requirements associated with uncertainty in income taxes. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Museum believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2010 and 2009 was \$33,137 and \$56,008, respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to June 30, 2010 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 29, 2010. The Museum has not evaluated subsequent events after September 29, 2010.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Endowment Campaign	\$ 300,000	\$ 300,000
Programs and Other	588,851	947,000
SVCF Fund Distribution	<u>248,417</u>	<u>-</u>
Total Contributions Receivable	<u>\$ 1,137,268</u>	<u>\$ 1,247,000</u>

As of June 30, 2010, \$817,268 of the contributions receivable is expected to be collected in less than one year and \$320,000 is expected to be collected in one to five years. The Museum periodically evaluates the collectibility of its contributions receivable based on historical experience. Uncollectible contributions are expected to be insignificant; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2010 and 2009.

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

NOTE 5 - NOTE RECEIVABLE - RELATED PARTY:

In November 2009 the Museum received a secured note receivable from an officer of the Museum in the amount of \$250,000 for the purpose of purchasing a primary residence within the San Jose, California Metropolitan area. The note bears a fixed interest rate of 1.5%, but for income reporting purposes, the interest benefit is computed and reported to the Internal Revenue Service as part of the officer's benefit package. The note matures at the earlier of the date which is (i) six months after the effective date of the termination of the officer's employment by the Museum, or (ii) the date on which the officer ceases to use the primary residence as her principal or primary residence, or (iii) the date on which the officer closes escrow on a sale or otherwise effects a transfer or conveyance of the primary residence. Interest earned was \$2,250 for the year ended June 30, 2010.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVESTMENTS:

All of the following investments are classified as Level 1 investments (See Note 3). The fair value of investments as of June 30, was as follows:

	2010	2009
Unrestricted:		
Debt Securities	\$ 59,515	\$ 40,410
Permanently Restricted:		
Mutual Funds	4,310,070	338,833
Equity Securities	664,390	1,735,395
Fixed Income Securities	683,023	1,339,869
Total Permanently Restricted	5,657,483	3,414,097
Total Investments at Fair Value	\$ 5,716,998	\$ 3,454,507
	2010	2009
Net Investment Income Loss:		
Interest and Dividends	\$ 147,043	\$ 150,817
Net Realized and Unrealized Loss	291,361	(886,596)
Total Net Investment Loss	\$ 438,404	\$ (735,779)

NOTE 7 - PROPERTY AND EQUIPMENT:

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

	2010	2009
Computer and Media Equipment	\$ 745,768	\$ 745,768
Funriture and Fixtures	161,002	161,002
Software	190,216	190,216
Leasehold Improvements	613,310	613,310
	1,710,296	1,710,296
Less: Accumulated Depreciation and Amortization	(1,553,626)	(1,476,218)
Property and Equipment, Net	\$ 156,670	\$ 234,078

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$77,408 and \$56,229, respectively.

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUST:

In 1997, the Museum received a conditional promise to give from a foundation in the form of a challenge grant towards the Museum's endowment campaign. Under the challenge grant, the Museum was to receive the rights to future earnings on funds contributed by the foundation to an independent trustee. The trustee's responsibilities are to hold and invest the funds in perpetuity and pay the Museum a percentage of the annual income, on a total revenue basis, earned on the donated amount. In December 2002, the foundation notified the Museum that the campaign goal was met.

As of June 30, 2010, the Museum has recognized \$930,117 in permanently restricted net assets, representing the present value of the estimated future earnings to be received on the funds held by the trustee. The Museum's interest in the trust is classified as a Level 3 asset (See Note 3). The present value of estimated future earnings was determined using an average rate of return, net of trustee fees of 4% and discount rates of 3% to 6%.

NOTE 9 - NOTES PAYABLE:

Notes payable as of June 30, consisted of following:

	<u>2010</u>	<u>2009</u>
<u>Bank of The West Telephone Loan</u> - bearing 8.25% interest, to be repaid over a period of sixty months beginning January 5, 2007. Principal payments equal to \$1,044 are due for the first fifty-nine months and a final principal and interest payment of \$1,051 is due in December 2011. The Note balance is collateralized by the Museum's telephone system.	\$ 18,793	\$ 31,322
<u>Venture Fund/Cash Reserve Loan</u> - The Community Foundation Silicon Valley (Foundation) and the Silicon Valley Arts Fund (Arts Fund) jointly held a reserve fund that was available to the Museum on a when-and-if needed basis, as determined at the sole discretion of the Foundation and Arts Fund. There was no guarantee the Museum would ultimately receive these funds and therefore, the reserve fund balance was not reflected in the Museum's financial statements. In June 2008 the Museum entered into an interest free Note Payable to borrow \$350,000 from the Arts Fund. In June 2010, all parties signed an agreement to terminate the Silicon Valley Arts Fund and distribute the assets of the Arts Fund. As part of this agreement, \$350,000 of the assets to be distributed were applied to the outstanding Note as of June 30, 2010.	<u>-</u>	<u>350,000</u>
Total Notes Payable	<u>\$ 18,793</u>	<u>\$ 381,322</u>

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - NOTES PAYABLE (Continued):

Scheduled maturities for the above notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 12,529
2012	<u>6,264</u>
Total	<u>\$ 18,793</u>

NOTE 10 - LINE OF CREDIT:

The Museum has a \$500,000 unsecured line of credit with Bank of the West. The line of credit was renewed on February 12, 2010 and is due upon demand. Payments of interest at the bank's prime rate plus 1.5% per annum with an interest rate floor of 5% per annum (5% at June 30, 2010) are due monthly. The agreement provides for various financial and non-financial covenants including, among other things, maintaining profitable operations on an annual basis, timely financial reporting and repaying all outstanding indebtedness for a 30-day period during the year. The amount available under this line of credit at June 30, 2010 was \$500,000. As of June 30, 2010 and 2009 the amount outstanding was \$0 and \$100,000, respectively.

NOTE 11 - EMPLOYEE BENEFIT PLANS:

The Museum previously contributed to a defined contribution 403(b) retirement plan for employees who have completed one year of service, and have worked at least 1,000 hours during that year. The Museum suspended its pension contribution effective March 1, 2009. Pension expense for the years ended June 30, 2010 and 2009 was \$0 and \$101,164, respectively.

The Museum had an incentive compensation plan covering certain key employees, which was replaced by the defined contribution 403(b) plan. Annual contributions to the plan were determined by the Executive Committee of the Board of Trustees. Accrued liabilities were \$59,515 and \$58,900 at June 30, 2010 and 2009, respectively representing the fully vested benefits for the one employee covered under the plan.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2010</u>	<u>2009</u>
Exhibitions and Education Programs	\$ 476,416	\$ 339,344
Art Acquisitions	20,131	-
Director's Fund	95,425	100,425
Gala	13,750	30,250
Strategic Plan	-	46,897
Time Restriction	150,000	150,000
Endowment Accumulted Earnings - Unappropriated	<u>202,739</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 958,461</u>	<u>\$ 666,916</u>

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS:

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

	<u>2010</u>	<u>2009</u>
Endowment Funds	\$ 6,628,290	\$ 6,388,409
Beneficial Interest in Perpetual Trust	<u>930,117</u>	<u>930,117</u>
Total Permanently Restricted Net Assets	<u>\$ 7,558,407</u>	<u>\$ 7,318,526</u>

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2010</u>
Exhibitions and Educations Programs	\$ 579,345
Gala	30,250
Strategic Plan	46,897
Time Restriction	150,000
Director's Fund	<u>5,000</u>
Total Net Assets Released from Restrictions - Operations	<u>811,492</u>
Art Acquisitions	97,143
Art Acquisitions Expended in Prior Year	<u>17,996</u>
Total Net Assets Released from Restrictions - Art Acquisitions	<u>115,139</u>
Total Net Assets Released from Restrictions	<u>\$ 926,631</u>

NOTE 15 - ENDOWMENT:

San Jose Museum of Art Association's endowment consists of two individual funds (See Note 13). Its endowment includes donor-restricted endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of San Jose Museum of Art Association has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, San Jose Museum of Art Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

Funds with Deficiencies - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets totaled \$0 and \$(216,520) as of June 30, 2010 and 2009, respectively. These deficiencies at June 30, 2009 resulted from unfavorable market fluctuations that occurred during the year ended June 30, 2009. During the year ended June 30, 2010 the Museum's endowment investments increased in fair value, eliminating the need to report a deficiency.

Investment Return Objectives, Risk Parameters and Strategies - The primary objectives of the Fund are to support the operations of the Museum over time, while preserving the Fund's inflation-adjusted asset value. The current investment goals are to achieve average long-term total returns on assets (net of fees) that are at least 5.5% greater than the current annual inflation rate (as measured by the Consumer Price Index for All Urban Consumers, Not Seasonally Adjusted, or if that Index is discontinued, the most similar then existing Index), at acceptable risk levels.

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

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

The Board understands that in order to seek to achieve the Fund's investment objectives, it must allocate Fund assets to diverse asset classes. Furthermore, the Board understands that, in general, assets with the highest potential for investment returns also have the highest investment risk.

Spending Policy - San Jose Museum of Art Association shall maintain records of the initial contributed value of endowment gifts, and shall not expend any portion of the initial contributed value of any endowment gift subject to these Policies.

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

The Museum may expend any portion of the net income and/or growth in asset value of an endowment gift, which exceeds its initial contributed value, in such amounts as the Board determines. The Board of Trustees can at its discretion approve distributions from the Fund to support the operations of the Museum up to the amount of 5% of the Fund's principal balance per year if: a) such distributions do not conflict with the intent of any donors; and (b) such distributions do not result in a decline in the initial contributed value balance of the Fund. Only under exceptional circumstances should distributions greater than 5% be considered. Any such larger distributions must (a) meet the same guidelines outlined above, and (b) must also be approved by the full Board. The current distribution policy is to budget distributions for a new fiscal year at no more than 5% of the rolling-average for the eight quarters prior to the end of the previous calendar year.

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

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

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

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

NOTE 16 - IN-KIND RENT AND DONATED SERVICES:

The City of San Jose provides facilities for the museum, museum store and administrative offices at no charge to the Museum. The estimated fair value of rent for these facilities of \$1,404,000 and \$1,638,001 has been determined by an independent real estate professional and is recorded as support and expenses in the statement of activities for the years ended June 30, 2010 and 2009, respectively.

SAN JOSE MUSEUM OF ART ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 16 - IN-KIND RENT AND DONATED SERVICES (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, consisting primarily of museum docents. Donated services of \$251,868 and \$225,406 have been recognized as in-kind support and program expenses in the statement of activities for the years ended June 30, 2010 and 2009, 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 fund-raising campaigns, which do not meet the criteria for recognitions as donated services. Accordingly, no amounts have been recognized for these services in the accompanying financial statements.

NOTE 17 - CONCENTRATIONS:

At June 30, 2010 and 2009, \$300,000 of the Museum's contributions receivable relating to its endowment campaign was due from a member of the Board of Trustees. The Museum has not provided an allowance for potential credit losses for contributions receivable, as it believes the amount is fully collectible. The Museum had additional contributions receivable from Board members totaling \$435,000 and \$560,000 at June 30, 2010 and 2009, respectively. Contribution support for the years ended June 30, 2010 and 2009 included \$691,063 and \$899,800 received from Board members.