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

***
FINANCIAL STATEMENTS
Year Ended June 30, 2012 with Comparative Totals
for the Year Ended June 30, 2011
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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, 2012, 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 San Jose Museum of Art Association's financial statements for the year ended June 30, 2011 and, in our report dated November 17, 2011, we expressed an unqualified opinion on those financial 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, 2012, 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
San Jose, California
October 24, 2012
## SAN JOSE MUSEUM OF ART ASSOCIATION
(A California Nonprofit Public Benefit Corporation)

### STATEMENT OF FINANCIAL POSITION
June 30, 2012 with Comparative Totals as of June 30, 2011

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$588,096</td>
<td>$592,236</td>
<td>$343,839</td>
<td>$1,524,171</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>32,824</td>
<td>1,250</td>
<td>5,383</td>
<td>39,457</td>
</tr>
<tr>
<td>Interfund Receivables and Payables</td>
<td>(417,541)</td>
<td>114,318</td>
<td>303,223</td>
<td>-</td>
</tr>
<tr>
<td>Contributions Receivable</td>
<td>221,476</td>
<td>520,365</td>
<td>748,731</td>
<td>1,490,572</td>
</tr>
<tr>
<td>Museum Store Inventory</td>
<td>79,894</td>
<td>-</td>
<td>-</td>
<td>79,894</td>
</tr>
<tr>
<td>Note Receivable - Related Party</td>
<td>250,000</td>
<td>-</td>
<td>-</td>
<td>250,000</td>
</tr>
<tr>
<td>Deferred Exhibition Costs and Prepaids</td>
<td>84,853</td>
<td>-</td>
<td>-</td>
<td>84,853</td>
</tr>
<tr>
<td>Investments</td>
<td>59,916</td>
<td>1,403,018</td>
<td>5,875,846</td>
<td>7,338,780</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>64,793</td>
<td>-</td>
<td>-</td>
<td>64,793</td>
</tr>
<tr>
<td>Beneficial Interest in Perpetual Trust</td>
<td>-</td>
<td>-</td>
<td>930,117</td>
<td>930,117</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$964,311</td>
<td>$2,631,187</td>
<td>$8,207,139</td>
<td>$11,802,637</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS | | | | |
|-----------------------------|---------------------------|
| LIABILITIES: | | | | |
| Accounts Payable | $68,298 | $ - | $ - | $68,298 |
| Accrued Liabilities | 211,973 | - | - | 211,973 |
| Unearned Revenue | 88,826 | - | - | 88,826 |
| Note Payable | - | - | - | 6,264 |

**Total Liabilities**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>369,097</td>
<td>-</td>
<td>-</td>
<td>369,097</td>
</tr>
</tbody>
</table>

| NET ASSETS: | | | | |
|-----------------------------|---------------------------|
| Unrestricted Net Assets | 595,214 | - | - | 595,214 |
| Permanently Restricted Net Assets | - | - | 8,207,139 | 8,207,139 |

**Total Net Assets**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>595,214</td>
<td>2,631,187</td>
<td>8,207,139</td>
<td>11,433,540</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET ASSETS**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$964,311</td>
<td>$2,631,187</td>
<td>$8,207,139</td>
<td>$11,802,637</td>
</tr>
</tbody>
</table>

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, 2012 with Comparative Totals for the Year Ended June 30, 2011

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>TOTAL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING SUPPORT AND REVENUE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$1,335,976</td>
<td>$1,266,126</td>
<td>-</td>
<td>$2,602,102</td>
</tr>
<tr>
<td>Other In-Kind Support</td>
<td>614,350</td>
<td>-</td>
<td>-</td>
<td>614,350</td>
</tr>
<tr>
<td>Public Programs</td>
<td>288,371</td>
<td>-</td>
<td>-</td>
<td>288,371</td>
</tr>
<tr>
<td>Membership Dues</td>
<td>203,064</td>
<td>-</td>
<td>-</td>
<td>203,064</td>
</tr>
<tr>
<td>Museum Store</td>
<td>198,519</td>
<td>-</td>
<td>-</td>
<td>198,519</td>
</tr>
<tr>
<td>Event Rental Income</td>
<td>134,035</td>
<td>-</td>
<td>-</td>
<td>134,035</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>83,985</td>
<td>-</td>
<td>-</td>
<td>83,985</td>
</tr>
<tr>
<td>Special Event Revenue</td>
<td>240,515</td>
<td>-</td>
<td>-</td>
<td>240,515</td>
</tr>
<tr>
<td>Less: Direct Expenses</td>
<td>(86,000)</td>
<td>-</td>
<td>(86,000)</td>
<td>(83,091)</td>
</tr>
<tr>
<td>Art Class Contracts and Tuition</td>
<td>54,148</td>
<td>-</td>
<td>-</td>
<td>54,148</td>
</tr>
<tr>
<td>In-Kind Rent</td>
<td>1,217,969</td>
<td>-</td>
<td>-</td>
<td>1,217,969</td>
</tr>
<tr>
<td>Total Operating Support and Revenue</td>
<td>3,066,963</td>
<td>1,266,126</td>
<td>-</td>
<td>4,333,089</td>
</tr>
<tr>
<td>Net Assets Released from Restrictions - Operations</td>
<td>973,309</td>
<td>(973,309)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Operating Support, Revenue and Net Assets Released from Restrictions</td>
<td>4,258,241</td>
<td>292,817</td>
<td>-</td>
<td>5,551,058</td>
</tr>
</tbody>
</table>

### OPERATING EXPENSES:

**Program Services:**
- Exhibitions: $2,376,634 - $2,537,553
- Education: $900,128 - $969,871
- Museum Store: $376,909 - $378,810

**Supporting Services:**
- Management and General: $948,533 - $704,784
- Fundraising: $494,637 - $649,135

Total Operating Expenses:
- $5,096,841 - $5,240,153

### CHANGE IN NET ASSETS FROM OPERATIONS

- $161,400 - $68,300

### NONOPERATING ACTIVITIES:

- Endowment Investment Income, Net: $- - $10,910 - $1,314,599
- Endowment Contributions: $- - $24,960 - $923,772
- Contributions for Art Collection Items: $- - $103,706 - $206,171
- General Investment Income, Net: $4,507 - $4,507 - $840
- Net Assets Released from Restrictions - Art Acquisitions: $41,284 - $41,284 - $-
- Bad Debt Expense: $- - $- - $-(400,000)
- Purchased Art Collection Items: $(41,341) - $(41,341) - $(73,031)
- Depreciation and Amortization: $(35,338) - $(35,338) - $(56,539)
- Interest Expense: $(111) - $(111) - $(1,008)

Total Nonoperating Activities:
- $(30,999) - $73,332 - $24,960 - $67,293 - $1,914,804

### CHANGE IN NET ASSETS

- $130,401 - $1,983,104

### NET ASSETS, Beginning of Year

- $464,813 - $8,207,139 - $10,912,030 - $8,928,926

### NET ASSETS, End of Year

- $595,214 - $11,433,540 - $10,912,030 - $10,912,030

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, 2012 with Comparative Totals for the Year Ended June 30, 2011

<table>
<thead>
<tr>
<th>OPERATING EXPENSES:</th>
<th>2012</th>
<th>2011</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages</td>
<td>$763,118</td>
<td>$334,584</td>
<td>47.1%</td>
</tr>
<tr>
<td>Payroll Taxes and Benefits</td>
<td>$121,532</td>
<td>$53,718</td>
<td>17.6%</td>
</tr>
<tr>
<td>Total Salaries and Related Expenses</td>
<td>$886,650</td>
<td>$388,302</td>
<td>7.3%</td>
</tr>
<tr>
<td>In-Kind Rent</td>
<td>$788,133</td>
<td>$147,445</td>
<td>13.7%</td>
</tr>
<tr>
<td>Outside Services and Security</td>
<td>$274,996</td>
<td>$37,524</td>
<td>10.0%</td>
</tr>
<tr>
<td>In-Kind Support Expense</td>
<td>$54,452</td>
<td>$24,117</td>
<td>2.7%</td>
</tr>
<tr>
<td>Total Supporting Services</td>
<td>$898,031</td>
<td>$210,090</td>
<td>21.6%</td>
</tr>
<tr>
<td>Management and General Fundraising</td>
<td>$284,373</td>
<td>$205,071</td>
<td>9.0%</td>
</tr>
<tr>
<td>Total OPERATING EXPENSES</td>
<td>$2,435,644</td>
<td>$910,729</td>
<td>72.0%</td>
</tr>
<tr>
<td>NONOPERATING EXPENSES</td>
<td>$2,435,644</td>
<td>$910,729</td>
<td>72.0%</td>
</tr>
<tr>
<td>Total Functional Expenses</td>
<td>$2,435,644</td>
<td>$910,729</td>
<td>72.0%</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>47.1%</td>
<td>17.6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>47.1%</td>
<td>17.6%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

### 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, 2012 with Comparative Totals for the Year Ended June 30, 2011

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>$ 521,510</td>
<td>$ 1,983,104</td>
</tr>
<tr>
<td>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>35,338</td>
<td>56,539</td>
</tr>
<tr>
<td>Net Realized Gain on Sale of Investments</td>
<td>(22,944)</td>
<td>(31,983)</td>
</tr>
<tr>
<td>Net Unrealized (Gain) Loss on Investments</td>
<td>206,810</td>
<td>(1,044,209)</td>
</tr>
<tr>
<td>Contributions Restricted for Long-Term Purposes</td>
<td>(200,000)</td>
<td>(239,882)</td>
</tr>
<tr>
<td>(Increase) Decrease in Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>(20,223)</td>
<td>(3,046)</td>
</tr>
<tr>
<td>Contributions Receivable</td>
<td>142,332</td>
<td>(495,636)</td>
</tr>
<tr>
<td>Museum Store Inventory</td>
<td>598</td>
<td>9,532</td>
</tr>
<tr>
<td>Deferred Exhibition Costs and Prepaids</td>
<td>(32,264)</td>
<td>(32,370)</td>
</tr>
<tr>
<td>Increase (Decrease) in Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(16,293)</td>
<td>(3,168)</td>
</tr>
<tr>
<td>Accrued Liabilities</td>
<td>(38,976)</td>
<td>12,820</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>(16,024)</td>
<td>40,787</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Operating Activities</strong></td>
<td>559,864</td>
<td>252,488</td>
</tr>
</tbody>
</table>

| **CASH FLOWS FROM INVESTING ACTIVITIES:** |        |        |
| Proceeds from Sale or Maturity of Investments | 985,143 | 1,505,144 |
| Purchase of Investments | (1,211,030) | (2,008,713) |
| **Net Cash Used by Investing Activities** | (225,887) | (503,569) |

| **CASH FLOWS FROM FINANCING ACTIVITIES:** |        |        |
| Proceeds from Contributions Restricted for Long-Term Purposes | 200,000 | 239,882 |
| Repayment of Borrowings | (6,264) | (12,529) |
| **Net Cash Provided by Financing Activities** | 193,736 | 227,353 |

| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 527,713 | (23,728) |

| **CASH AND CASH EQUIVALENTS, Beginning of Year** | 996,458 | 1,020,186 |
| **CASH AND CASH EQUIVALENTS, End of Year** | $ 1,524,171 | $ 996,458 |

| **SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:** |        |        |
| Cash Paid for Interest | $ 154  | $ 1,095 |

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

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NOTE 1 - ORGANIZATION:

San Jose Museum of Art Association (the "Museum" or "SJMA") is a California nonprofit public benefit corporation incorporated in 1969. The San Jose Museum of Art reflects the diverse cultures and innovative spirit of Silicon Valley. Through its exhibitions, educational programs, scholarship, and collections, SJMA connects the present and the past and the art of the West Coast and the world. The Museum fosters awareness of artists’ broad contributions to society: it engages audiences with the art of our time and the vitality of the creative process. SJMA also owns and operates a store located in the museum.

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.

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 various ages and cultural backgrounds. Through its exhibitions and programs, SJMA addresses major trends in international contemporary art, architecture, and design, with an ongoing commitment to place the work of emerging artists and California art in national and international context. 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 diversity of its communities. The Museum presents nine to twelve exhibitions each year, including one-person and thematic group exhibitions that include a range of artworks, from traditional painting to exploratory new-media installations. The curatorial staff organizes most of the exhibitions in a given season. In-house exhibitions are frequently accompanied by scholarly publications or websites and regularly 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 projects and commissions that reflect the issues of importance to its communities.

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 for example.) SJMA is the largest provider of arts education in the schools in greater Santa Clara County. SJMA is dedicated to furthering online learning and to opening 21st-century doorways to art. The Museum pioneers dynamic new ways of providing historical context and of amplifying audiences’ experiences. SJMA has been recognized by two “MUSE” awards from the American Association of Museums for its use of 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 proudly offers 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, from tours to workshops, in-class presentations, and curriculum guides.
NOTE 2 - PROGRAM SERVICES (Continued):

The Museum serves over 37,000 young people annually. Youth participate in over 50,000 hands-on experiences as well as lectures, symposia, and educator-led tours (often paired with hands-on art activities). An in-school art docent program teaches visual thinking skills. SJMA also offers sequential in-school art-making workshops (often combined with museum 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, adult programs include after-hours events that make the Museum a social hub downtown.

SJMA’s website enables smooth delivery of information; participatory educational material and curatorial projects; and the integration of an active social media presence. A two-year project to provide web-based access to the collection is underway.

Museum Store

The Museum Store is located off the main lobby of SJMA. This 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 the current season of exhibitions. The store is staffed by Museum employees as well as by 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 - 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.
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, 2011, 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 temporarily restricted net assets. When donor restrictions are met (either by passage of time or by use), temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Fair Value Measurements - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.
NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

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

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

**Permanent Art Collection** - The collection consists of twentieth and twenty-first century artwork, including paintings, sculptures, installations, new media, photography, drawings and prints, acquired through purchase or contribution. The collection is not recognized as an asset in the statement of financial position. Each work of art is inventoried and cared for, and activities verifying the collection’s integrity are performed continuously. Purchases of art are recorded 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, 2012 and 2011 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.
NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

**Accrued Vacation** - Accrued vacation represents vacation earned, but not taken as of June 30, 2012 and 2011, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2012 and 2011 was $94,288 and $100,188, respectively.

**Revenue Recognition** - The Museum recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" 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 and events that will be presented in a future period.

**Contributions** - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as 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** - In-kind rent is valued based on current prevailing downtown San Jose rent rates. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Museum would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The estimated value of in-kind rent and donated services is disclosed in Note 15.

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

The Museum files information returns in the U.S. federal jurisdiction and state of California. The Museum's federal returns for the years ended June 30, 2009 and beyond remain subject to possible examination by the Internal Revenue Service. The Museum's California returns of the tax years ended June 30, 2008 and beyond remain subject to possible examination by the Franchise Tax Board.
NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2012 and 2011 was $54,889 and $34,076, respectively.

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

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to June 30, 2012 for potential recognition or disclosure in the financial statements. The Museum did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2012. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 24, 2012.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following at June 30:

<table>
<thead>
<tr>
<th>Contributions Receivable</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Campaign</td>
<td>$800,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Programs and Other</td>
<td>752,095</td>
<td>724,377</td>
</tr>
<tr>
<td>Less Discounts to Net Present Value</td>
<td>(61,523)</td>
<td>(91,473)</td>
</tr>
<tr>
<td>Total Contributions Receivable</td>
<td>$1,490,572</td>
<td>$1,632,904</td>
</tr>
</tbody>
</table>

As of June 30, 2012, $832,095 of the contributions receivable is expected to be collected in less than one year and $720,000 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, 2012 and 2011.

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as contributions receivable and support in the appropriate net asset category. For promises expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the promise as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2012 was 2.7%. 

- 11 -
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 receivable on the note was $9,750 and $6,000 as of June 30, 2012 and 2011, respectively. Interest earned on the note was $3,750 for each of the years ended June 30, 2012 and 2011.

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:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Securities</td>
<td>$59,916</td>
<td>$59,770</td>
</tr>
<tr>
<td>Temporarily Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Accumulated Earnings - Unappropriated</td>
<td>1,403,018</td>
<td>1,326,136</td>
</tr>
<tr>
<td>Permanently Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>6,038,794</td>
<td>5,974,879</td>
</tr>
<tr>
<td>Equity Securities</td>
<td>716,371</td>
<td>676,137</td>
</tr>
<tr>
<td>Fixed Income Securities</td>
<td>523,699</td>
<td>585,973</td>
</tr>
<tr>
<td>Less: Endowment Accumulated Earnings - Unappropriated</td>
<td>(1,403,018)</td>
<td>(1,326,136)</td>
</tr>
<tr>
<td>Total Permanently Restricted</td>
<td>5,875,846</td>
<td>5,910,853</td>
</tr>
<tr>
<td>Total Investments at Fair Value</td>
<td>$7,338,780</td>
<td>$7,296,759</td>
</tr>
</tbody>
</table>

Net Investment Income:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Realized and Unrealized Gain (Loss)</td>
<td>$ (183,866)</td>
<td>$1,076,192</td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>199,283</td>
<td>203,914</td>
</tr>
<tr>
<td>Distribution from Beneficial Interest in Perpetual Trust</td>
<td>-</td>
<td>35,333</td>
</tr>
<tr>
<td>Total Net Investment Income</td>
<td>$15,417</td>
<td>$1,315,439</td>
</tr>
</tbody>
</table>
NOTE 7 - PROPERTY AND EQUIPMENT:

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

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer and Media</td>
<td>$745,768</td>
<td>$745,768</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>613,310</td>
<td>613,310</td>
</tr>
<tr>
<td>Software</td>
<td>190,216</td>
<td>190,216</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>161,002</td>
<td>161,002</td>
</tr>
<tr>
<td></td>
<td>1,710,296</td>
<td>1,710,296</td>
</tr>
<tr>
<td>Less: Accumulated</td>
<td>(1,645,503)</td>
<td>(1,610,165)</td>
</tr>
<tr>
<td>Depreciation and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and</td>
<td>$64,793</td>
<td>$100,131</td>
</tr>
<tr>
<td>Equipment, Net</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was $35,338 and $56,539, respectively.

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, 2012, 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 - LINE OF CREDIT:

The Museum has a $500,000 unsecured line of credit with Bank of the West. The line 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, 2012) 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, 2012 was $500,000. As of June 30, 2012 and 2011 the amount outstanding was $0.
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, 2012 and 2011 was $44,028 and $45,543, 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 $59,916 and $59,770 at June 30, 2012 and 2011, respectively representing the fully vested benefits for the one employee covered under the plan.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

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

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Accumulated Earnings - Unappropriated</td>
<td>$1,492,915</td>
<td>$1,482,005</td>
</tr>
<tr>
<td>Exhibitions and Education Programs</td>
<td>850,559</td>
<td>537,707</td>
</tr>
<tr>
<td>Art Acquisitions</td>
<td>215,693</td>
<td>60,894</td>
</tr>
<tr>
<td>Gala</td>
<td>63,900</td>
<td>-</td>
</tr>
<tr>
<td>Director's Fund</td>
<td>8,120</td>
<td>34,432</td>
</tr>
<tr>
<td>Time Restriction</td>
<td>-</td>
<td>150,000</td>
</tr>
<tr>
<td>Total Temporarily Restricted Net Assets</td>
<td>$2,631,187</td>
<td>$2,265,038</td>
</tr>
</tbody>
</table>

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS:

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

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds</td>
<td>$7,277,022</td>
<td>$7,252,062</td>
</tr>
<tr>
<td>Beneficial Interest in Perpetual Trust</td>
<td>930,117</td>
<td>930,117</td>
</tr>
<tr>
<td>Total Permanently Restricted Net Assets</td>
<td>$8,207,139</td>
<td>$8,182,179</td>
</tr>
</tbody>
</table>
NOTE 13 - 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:

<table>
<thead>
<tr>
<th>Temporary Restricted Net Assets Released from Restrictions - Operations:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibitions and Education Programs</td>
<td>$ 946,997</td>
</tr>
<tr>
<td>Director's Fund</td>
<td>26,312</td>
</tr>
<tr>
<td>Total Temporarily Restricted Net Assets Released from Restrictions - Operations</td>
<td>973,309</td>
</tr>
</tbody>
</table>

Temporarily Restricted Net Assets Released from Restrictions - Art Acquisitions:

| Art Acquisitions | 41,284 |

Total Temporarily Restricted Net Assets Released from Restrictions | $ 1,014,593 |

NOTE 14 - ENDOWMENT:

San Jose Museum of Art Association’s endowment consists of two individual funds (see Note 12). 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
NOTE 14 - 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 individual donor restricted endowment funds may fall below the permanently restricted net assets balance. There were no deficiencies of this nature that would be required to be reported in unrestricted net assets as of June 30, 2012 and 2011.

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.
NOTE 14 - 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, 2012 consisted of the following:

<table>
<thead>
<tr>
<th>Endowment Funds</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-Restricted</td>
<td></td>
<td>$1,492,915</td>
<td>$8,207,139</td>
<td>$9,700,054</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following:

<table>
<thead>
<tr>
<th>Endowment Net Assets, Beginning of Year</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions (Amortization of Present Value Discount)</td>
<td></td>
<td></td>
<td>24,960</td>
<td>24,960</td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>-</td>
<td>194,776</td>
<td>-</td>
<td>194,776</td>
</tr>
<tr>
<td>Net Realized Gain</td>
<td>-</td>
<td>22,944</td>
<td>-</td>
<td>22,944</td>
</tr>
<tr>
<td>Net Unrealized Loss</td>
<td>-</td>
<td>(206,810)</td>
<td>-</td>
<td>(206,810)</td>
</tr>
<tr>
<td>Endowment Net Assets, End of Year</td>
<td></td>
<td>$1,492,915</td>
<td>$8,207,139</td>
<td>$9,700,054</td>
</tr>
</tbody>
</table>
NOTE 14 - ENDOWMENT (Continued):

Endowment net asset composition by type of fund as of June 30, 2011 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-Restricted</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Funds</td>
<td>$</td>
<td>-</td>
<td>$ 1,482,005</td>
<td>$ 8,182,179</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Net Assets,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of Year</td>
<td>$</td>
<td>-</td>
<td>$ 202,739</td>
<td>$ 7,558,407</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Pledge Bad</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>-</td>
<td>-</td>
<td>(300,000)</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Distribution from</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in Perpetual Trust</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount Appropriated</td>
<td>-</td>
<td>(35,333)</td>
<td>-</td>
<td>(35,333)</td>
</tr>
<tr>
<td>for Expenditure</td>
<td>-</td>
<td>203,074</td>
<td>-</td>
<td>203,074</td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>-</td>
<td>31,983</td>
<td>-</td>
<td>31,983</td>
</tr>
<tr>
<td>Net Realized Gain</td>
<td>-</td>
<td>1,044,209</td>
<td>-</td>
<td>1,044,209</td>
</tr>
<tr>
<td>Net Unrealized Gain</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Net</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets, End of Year</td>
<td>$</td>
<td>-</td>
<td>$ 1,482,005</td>
<td>$ 8,182,179</td>
</tr>
</tbody>
</table>

NOTE 15 - 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 $1,217,969 and $1,169,999 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, 2012 and 2011, 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 of $577,482 and $402,159 have been recognized as in-kind support and program expenses in the statement of activities for the years ended June 30, 2012 and 2011, respectively.
NOTE 15 - IN-KIND RENT AND DONATED SERVICES (Continued):

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 recognitions as donated services. Accordingly, no amounts have been recognized for these services in the accompanying financial statements.

During the years ended June 30, the following in-kind contributions were received by the Museum:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Kind Rent</td>
<td>$1,217,969</td>
<td>$1,169,999</td>
</tr>
<tr>
<td>Other In-Kind Support:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volunteer Services</td>
<td>194,076</td>
<td>233,150</td>
</tr>
<tr>
<td>Donated Services</td>
<td>383,406</td>
<td>169,009</td>
</tr>
<tr>
<td>Equipment and Software</td>
<td>28,147</td>
<td>-</td>
</tr>
<tr>
<td>Wine for C100 Dinner</td>
<td>8,541</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>180</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>614,350</strong></td>
<td><strong>402,159</strong></td>
</tr>
<tr>
<td>Total Contributions In-Kind</td>
<td><strong>$1,832,319</strong></td>
<td><strong>$1,572,158</strong></td>
</tr>
</tbody>
</table>

NOTE 16 - CONCENTRATIONS:

At June 30, 2012 and 2011, the Museum had contributions receivable from Board members totaling $1,206,360 and $1,489,860 at June 30, 2012 and 2011, respectively. During the year ended June 30, 2011, $300,000 of contributions receivable relating to its endowment campaign and $100,000 of other contributions receivable due from a Board member were written off as a bad debt. Contribution support for the years ended June 30, 2012 and 2011 included $633,996 and $1,866,359, respectively received from Board members.

NOTE 17 - LITIGATION:

During the year ended June 30, 2012 the San Jose Museum of Art Association was named in a lawsuit seeking damages in conjunction with a cancellation of an exhibition. The Museum has engaged legal counsel and intends to vigorously defend against the claim. Management believes that the lawsuit is completely without merit, and no liability has been recorded by the Museum as a result. Nonrecurring Pro Bono Professional Services on the statement of functional expenses for the year ended June 30, 2012 includes $210,000 of legal services for the ongoing litigation.