

**SAN JOSE MUSEUM OF ART ASSOCIATION**

**JUNE 30, 2023**

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INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS

# San Jose Museum of Art Association

## Independent Auditors' Report and Financial Statements

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A Century Strong

## Independent Auditors' Report

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

### Opinion

We have audited the financial statements of **SAN JOSE MUSEUM OF ART ASSOCIATION (the Museum)**, which comprise the statement of financial position as of June 30, 2023, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year from the date of this report.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Report on Summarized Comparative Information**

We have previously audited the Museum's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Jose, California  
September 14, 2023

# San Jose Museum of Art Association

## Statement of Financial Position

*June 30, 2023 (with comparative totals for 2022)*

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,158,958	\$ 1,433,672	\$ 3,592,630	\$ 3,692,256
Accounts receivable	46,593	9,327	55,920	21,021
Contributions receivable, net	94,434	776,409	870,843	1,701,534
Museum store inventory	59,340		59,340	57,087
Deferred exhibition costs and prepaids	165,341		165,341	154,004
Investments	95,754	11,333,855	11,429,609	10,661,171
Total assets	\$ 2,620,420	\$ 13,553,263	\$ 16,173,683	\$ 16,287,073
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 245,519		\$ 245,519	\$ 126,316
Accrued liabilities	252,747		252,747	273,050
Unearned revenue	90,656		90,656	92,502
Total liabilities	588,922	-	588,922	491,868
<b>Net Assets:</b>				
Without donor restrictions	2,031,498		2,031,498	1,894,401
With donor restrictions:				
Restricted for specific purposes		\$ 1,398,934	1,398,934	1,792,961
Restricted for passage of time		820,474	820,474	1,539,813
Subject to appropriation and spending policy		2,753,364	2,753,364	2,002,703
Held in perpetuity		8,580,491	8,580,491	8,565,327
Total net assets	2,031,498	13,553,263	15,584,761	15,795,205
Total liabilities and net assets	\$ 2,620,420	\$ 13,553,263	\$ 16,173,683	\$ 16,287,073

See accompanying notes to the financial statements.

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

*Year Ended June 30, 2023 (with comparative totals for 2023)*

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Support and Revenue:</b>				
Contributions and grants	\$ 1,357,183	\$ 1,790,998	\$ 3,148,181	\$ 3,375,507
Forgiveness of loan payable - Paycheck Protection Program			-	456,887
Employee retention credits	223,218		223,218	203,713
Public programs and admissions	258,331		258,331	264,257
Special events, net	435,994		435,994	353,468
Museum store, net	84,625		84,625	54,740
Membership dues	165,102		165,102	178,097
Event rental income	44,275		44,275	62,800
Other income	15,250		15,250	6,237
Art class contracts and tuition	18,980		18,980	12,200
Net assets released from restrictions	3,350,487	(3,350,487)	-	-
	5,953,445	(1,559,489)	4,393,956	4,967,906
In-kind support	1,822,419		1,822,419	1,835,425
<b>Total support and revenue</b>	<b>7,775,864</b>	<b>(1,559,489)</b>	<b>6,216,375</b>	<b>6,803,331</b>
<b>Operating Expenses:</b>				
Program services:				
Exhibitions	4,084,229		4,084,229	3,510,289
Education	1,659,751		1,659,751	1,305,539
Museum store	298,266		298,266	281,140
<b>Total program services</b>	<b>6,042,246</b>	<b>-</b>	<b>6,042,246</b>	<b>5,096,968</b>
Support services:				
Management and general	883,064		883,064	900,040
Fundraising	799,137		799,137	824,740
<b>Total support services</b>	<b>1,682,201</b>	<b>-</b>	<b>1,682,201</b>	<b>1,724,780</b>
<b>Total operating expenses</b>	<b>7,724,447</b>	<b>-</b>	<b>7,724,447</b>	<b>6,821,748</b>
<b>Change in Net Assets from Operations</b>	<b>51,417</b>	<b>(1,559,489)</b>	<b>(1,508,072)</b>	<b>(18,417)</b>
<b>Non-Operating Activities:</b>				
Endowment investment income (loss), net	7,888	1,123,954	1,131,842	(2,021,842)
Endowment contributions		15,163	15,163	11,522
Contributions for art collection items		356,980	356,980	269,284
General investment income, net	77,792		77,792	532
Depreciation and amortization			-	(479)
Net assets released from restriction - art acquisition	284,149	(284,149)	-	-
Purchased art collection items	(284,149)		(284,149)	(420,065)
<b>Total non-operating activities</b>	<b>85,680</b>	<b>1,211,948</b>	<b>1,297,628</b>	<b>(2,161,048)</b>
<b>Total Change in Net Assets</b>	<b>137,097</b>	<b>(347,541)</b>	<b>(210,444)</b>	<b>(2,179,465)</b>
<b>Net Assets - beginning of year</b>	<b>1,894,401</b>	<b>13,900,804</b>	<b>15,795,205</b>	<b>17,974,670</b>
<b>Net Assets - end of year</b>	<b>\$ 2,031,498</b>	<b>\$ 13,553,263</b>	<b>\$ 15,584,761</b>	<b>\$ 15,795,205</b>

See accompanying notes to the financial statements.

# San Jose Museum of Art Association

## Statement of Functional Expenses

Year Ended June 30, 2023 (with comparative totals for 2022)

	Program Services				Support Services			2023 Total	2022 Total
	Exhibitions	Education	Museum Store	Total Program Services	Management and General	Fundraising	Total Support Services		
<b>Operating Expenses:</b>									
Salaries and benefits:									
Salaries and wages	\$ 1,295,255	\$ 917,982	\$ 106,488	\$ 2,319,725	\$ 383,185	\$ 383,886	\$ 767,071	\$ 3,086,796	\$ 2,751,368
Payroll taxes and benefits	249,343	138,782	17,319	405,444	55,787	102,285	158,072	563,516	495,465
Total salaries and benefits	1,544,598	1,056,764	123,807	2,725,169	438,972	486,171	925,143	3,650,312	3,246,833
In-kind rent	1,091,661	209,670	130,206	1,431,537	87,350	119,114	206,464	1,638,001	1,637,999
In-kind support expense	1,602	36,493	123	38,218	987	801	1,788	40,006	72,123
Volunteer services		138,472	5,940	144,412			-	144,412	125,303
Outside services and security	489,228	82,503	7,875	579,606	173,954	25,125	199,079	778,685	646,998
Shipping and storage	284,502	1,410	20	285,932	118	245	363	286,295	134,966
Exhibition costs	183,472	1,934		185,406			-	185,406	92,765
Miscellaneous	43,197	13,977	3,355	60,529	41,227	16,455	57,682	118,211	98,082
Equipment expenses	76,522	13,406	5,909	95,837	10,283	9,213	19,496	115,333	121,339
Marketing	74,146			74,146	4,807	18,979	23,786	97,932	93,315
Materials	76,935	18,386	940	96,261	631	860	1,491	97,752	31,818
Software maintenance	43,198	1,571	1,116	45,885	13,742	29,933	43,675	89,560	73,367
Travel	31,699	18,955	1,421	52,075	17,219	2,318	19,537	71,612	69,957
Printing and web design	38,173	11,808	280	50,261	1,590	16,238	17,828	68,089	62,171
Office supplies and postage	19,808	21,090	5,639	46,537	7,199	6,744	13,943	60,480	71,303
Telephone and utilities	25,057	6,821	2,168	34,046	12,364	9,766	22,130	56,176	65,688
Insurance	43,091	2,964	1,841	47,896	1,505	3,184	4,689	52,585	46,777
Professional services				-	44,955		44,955	44,955	38,921
Catering	5,275	20,279		25,554	15,274	3,925	19,199	44,753	25,712
Recruiting	109			109	5,000	29,027	34,027	34,136	29,730
Bank charges	3,015	2,246	7,466	12,727	2,078	18,779	20,857	33,584	19,994
Meetings and lunches	1,057	1,002	160	2,219	3,809	2,260	6,069	8,288	11,162
Conservation	7,884			7,884			-	7,884	5,425
Total operating expenses	4,084,229	1,659,751	298,266	6,042,246	883,064	799,137	1,682,201	7,724,447	6,821,748
<b>Non-Operating Expenses:</b>									
Purchased art collection items	284,149			284,149			-	284,149	420,065
Depreciation and amortization				-			-	-	479
Total operating and non-operating expenses	4,368,378	1,659,751	298,266	6,326,395	883,064	799,137	1,682,201	8,008,596	7,242,292
Percentage of total expense	54.55%	20.72%	3.72%	78.99%	11.03%	9.98%	21.01%	100.00%	100.00%
<b>Expenses Netted against Revenue:</b>									
Cost of goods sold			72,534	72,534			-	72,534	50,404
Total expenses	\$ 4,368,378	\$ 1,659,751	\$ 370,800	\$ 6,398,929	\$ 883,064	\$ 799,137	\$ 1,682,201	\$ 8,081,130	\$ 7,292,696

See accompanying notes to the financial statements.

# San Jose Museum of Art Association

## Statement of Cash Flows

<i>Year Ended June 30, 2023 (with comparative totals for 2022)</i>	2023	2022
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (210,444)	\$ (2,179,465)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization		479
Net realized (gain) loss on sale of investments	(693,476)	6,228
Net unrealized (gain) loss on investments	(60,820)	2,537,732
Forgiveness of loan payable - Paycheck Protection Program		(456,887)
Contributions restricted for long-term purposes	(15,163)	(11,522)
Contributions restricted for art collection items	(356,980)	(269,284)
Art collection items purchased	284,150	420,065
Changes in operating assets and liabilities:		
Accounts receivable	(34,899)	61,140
Contributions receivable	830,691	(207,146)
Museum store inventory	(2,253)	15,887
Deferred exhibition costs and prepaids	(11,337)	(61,676)
Accounts payable	119,203	(17,996)
Accrued liabilities	(20,303)	19,614
Unearned revenue	(1,846)	33,323
Net cash used by operating activities	(173,477)	(109,508)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale or maturity of investments	1,605,179	464,224
Purchases of investments	(1,619,321)	(318,589)
Purchased art collection items	(284,150)	(420,065)
Net cash used by investing activities	(298,292)	(274,430)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from contributions for art collection items	356,980	269,284
Proceeds from contributions restricted for long-term purposes	15,163	11,522
Net cash provided by financing activities	372,143	280,806
<b>Change in Cash and Cash Equivalents</b>	<b>(99,626)</b>	<b>(103,132)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>3,692,256</b>	<b>3,795,388</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 3,592,630</b>	<b>\$ 3,692,256</b>
<b>Supplemental Disclosure:</b>		
There were no amounts paid for taxes or interest in 2023 or 2022.		
Forgiveness of loan payable - Paycheck Protection Program	\$ -	\$ 456,887

See accompanying notes to the financial statements.



# San Jose Museum of Art Association

## Notes to the Financial Statements

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### Note 1 - Organization:

The San Jose Museum of Art Association (the Museum) is a California nonprofit public benefit corporation incorporated in 1969. The Museum presents award-winning exhibitions and educational programs in service of its mission “to nurture empathy and connection by engaging communities with socially relevant contemporary art.” The Museum offers free admission to students and their teachers, and a popular free First Friday program that attracts over 300 people per event for open galleries and live entertainment.

The Museum’s operations receive support from the City of San José through a facility subsidy, a program grant, and its donation of in-kind rent, as well as strong support from foundations, corporations, and individuals.

Founded in 1969 by artists and community leaders on the Plaza de Cesar Chavez in downtown San José, the Museum is the premier modern and contemporary art museum in Silicon Valley. Its dynamic program, which balances socially relevant traveling exhibitions with critically engaging shows drawn from a collection of over 2,700 works, resonates with defining characteristics of the city—from its rich diversity to its hallmark innovative ethos. Projects touch on timely topics from migration and identity to artificial intelligence and include significant original and touring exhibitions by both nationally and internationally acclaimed artists as well as emerging and under-recognized practitioners. SJMA’s collection plan prioritizes community relevance and public access, and places particular priority on acquiring works that reflect the cultural heritages and lived experiences of the community.

The Museum supports its exhibition program with substantial arts education and outreach efforts, a strong commitment to community partnership, and a core commitment to nurturing a sense of belonging and welcome for all members of the racially, ethnically, and linguistically diverse community. SJMA is one of the largest providers of in-school arts education in Santa Clara County, serving 25,000-40,000 students per year through on and off-site education programs. Initiatives such as the award-winning school programs “Let’s Look at Art,” which provides free docent presentations in the classroom, the integrated visual arts residency “Sowing Creativity,” and Kids Summer Art Camp, offered at the Museum for six weeks throughout the summer, distinguish the Museum as a leader in arts education.

The Museum minimizes barriers to access by offering weekend and evening hours, eliminating admission fees for students and teachers, and providing exhibition didactics in English, Spanish, and Vietnamese—San José’s official languages. Diversity, equity, inclusion, and accessibility are integral top priorities of the Museum’s strategic plan, which aspires to be “borderless” and essential to creative life throughout Silicon Valley.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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The Museum store is located adjacent to the Museum's main lobby. This gift and bookstore carries mission-related products that are educational, foster creativity, and encourages the appreciation of art. The Museum store also features custom products by area artists and craftsmen as well as publications relevant to the current exhibitions. The store is staffed by Museum employees and volunteers.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting and Financial Statement Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting.

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), the Museum reports its financial position and activities in two classes of net assets:

- *Net assets without donor restrictions* - those assets over which the Board of Trustees has discretionary control in carrying out the operations of the Museum. Under this category, the Museum maintains an operating fund, plus any net assets designated by the Board for specific purposes.
- *Net assets with donor restrictions* - contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restriction. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

#### b. Permanent Art Collection

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

# San Jose Museum of Art Association

## Notes to the Financial Statements

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c. Cash and Cash Equivalents

The Museum considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

d. Investments

Investments are reported at fair value based on quoted market prices including accrued interest. Changes in fair values as well as realized gains and losses are reflected in the statement of activities and change in net assets. Dividend and interest income are accrued when earned.

e. Fair Value Measurements

The Museum carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Museum classifies its financial assets and liabilities according to three levels, maximizes the use of observable inputs, and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

f. Property and Equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Purchases of individual items of property and equipment with a cost greater than \$3,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 10 years. As of June 30, 2023, the Museum's property and equipment was fully depreciated and/or amortized.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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### g. Revenue Recognition

Contributions and contributions receivable are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions, depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as contributions receivable and support in the appropriate net asset category. A present value discount is estimated based on the risk-free rate at the time of the promise as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2023 was 3.12%.

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

The Museum has multiple revenue streams that are accounted for as contracts with customers including admissions, membership and store activities. The Museum recognizes revenue from ticket sales at the time of admission. Program revenue is recognized at the time the program is held. Membership dues received in advance are deferred and recognized as revenue over the periods to which the dues relate. Unearned revenue also includes amounts received for exhibits and events that will be presented in a future period. Revenues derived from the Museum's store are recognized when cash is collected at the point of sale or when credit card receipts are collected within a few days of the sale.

Unearned revenue includes membership dues received in advance and amounts received for exhibits and events that will be presented in a future period.

### h. Functional Expense Allocation

The cost of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and change in net assets.

Directly identifiable expenses are charged to the related program or service benefited. Salaries and related benefits are charged to the functional area of the employee who incurred the expense. Occupancy related expenses are allocated to the functional area based on square footage. Other expenses benefiting multiple functions are allocated based on head count.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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i. Advertising

The Museum expenses advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2023 and 2022, totaled \$57,588 and \$58,973, respectively.

j. Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Museum has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Management has evaluated the Museum's tax positions and concluded that all of the positions taken by the Museum in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

k. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

l. Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2023, from which the information was derived.

m. Reclassifications

Certain reclassifications have been made to the 2022 financial statements in order to conform to the 2023 presentation. These reclassifications had no impact on net assets or the change in net assets.

n. Subsequent Events

Management of the Museum has evaluated events and transactions from June 30, 2023, through September 14, 2023, the date these financial statements were available to be issued. The Museum did not have any subsequent events that required recognition or disclosure in the financial statements.

# San Jose Museum of Art Association

## Notes to the Financial Statements

**Note 3 - Contributions Receivable:**

Contributions receivable consisted of the following at June 30:

	2023	2022
Programs and other	\$ 888,189	\$ 1,763,371
Less discounts to net present value	(17,346)	(61,837)
	\$ 870,843	\$ 1,701,534

At June 30, 2023, \$655,157 of contributions receivable is expected to be collected in less than one year and \$233,032 is expected to be collected in one to five years. The Museum periodically evaluates the collectability of its contributions receivable based on historical experience. Uncollectible contributions are expected to be insignificant; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2023 and 2022.

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

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

	2023			2022		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Without donor restrictions:						
Equity securities	\$ 55,602		\$ 55,602	\$ 59,070		\$ 59,070
Mutual funds		\$ 40,152	40,152	\$ 34,071		34,071
	55,602	40,152	95,754	59,070	34,071	93,141
With donor restrictions:						
Equity securities	7,052,330		7,052,330	7,327,438		7,327,438
Mutual funds		2,875,584	2,875,584		2,234,055	2,234,055
Government securities		1,405,941	1,405,941		1,006,537	1,006,537
	7,052,330	4,281,525	11,333,855	7,327,438	3,240,592	10,568,030
<b>Total investments</b>	<b>\$ 7,107,932</b>	<b>\$ 4,321,677</b>	<b>\$ 11,429,609</b>	<b>\$ 7,386,508</b>	<b>\$ 3,274,663</b>	<b>\$ 10,661,171</b>

# San Jose Museum of Art Association

## Notes to the Financial Statements

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### Note 5 - Property and Equipment:

Property and equipment consisted of the following at June 30:

	2023	2022
Computer and media equipment	\$ 745,768	\$ 745,768
Leasehold improvements	613,310	613,310
Software	190,216	190,216
Furniture and fixtures	161,002	161,002
	<hr/>	<hr/>
	1,710,296	1,710,296
Accumulated depreciation and amortization	(1,710,296)	(1,710,296)
	<hr/>	<hr/>
	\$ -	\$ -

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 were \$0 and \$479, respectively.

As detailed in Note 11, In-Kind Rent and Other In-Kind Support, the City of San José provides facilities for the Museum at no charge. Improvements to the building made by the Museum have been recorded as leasehold improvements.

### Note 6 - COVID-19 Pandemic and Government Funding:

The Museum applied for Employee Retention Credits (ERC) through the U.S. Department of the Treasury and received \$223,218 and \$203,713 during the years ended June 30, 2023 and 2022, respectively. The amounts were recognized as revenue in the accompanying statement of activities and changes in net assets.

### Note 7 - Line of Credit:

In July 2022, the Museum was approved for a \$500,000 unsecured line of credit with Heritage Bank. The line of credit bears interest commensurate with the prime rate plus 0.5% (8.75% at June 30, 2023). The line of credit expires on August 9, 2024. The Museum complied with the required financial and reporting covenants under the terms of the line of credit agreement. There were no borrowings on the line of credit as of June 30, 2023.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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

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

	2023	2022
Endowment accumulated earnings – unappropriated	\$ 2,753,364	\$ 2,002,703
Time restrictions	820,474	1,539,813
Gala	427,399	593,293
Exhibitions and education programs	867,538	1,168,502
Art acquisitions	103,997	31,166
Endowment funds	8,580,491	8,565,327
	<hr/>	<hr/>
	\$ 13,553,263	\$ 13,900,804

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

	2023	2022
Operating Activities:		
Exhibitions and education programs	\$ 1,248,259	\$ 223,740
Endowment appropriations for operations	569,520	531,769
Time restrictions	891,267	689,184
Gala	641,441	575,869
Forgiveness of loan payable – Paycheck Protection Plan		456,887
	<hr/>	<hr/>
	3,350,487	2,477,449
Non-operating - art acquisitions	284,149	420,065
	<hr/>	<hr/>
	\$ 3,634,636	\$ 2,897,514

### Note 9 - Endowment:

The Museum's donor-restricted endowment consists of donor-restricted endowment funds and a Board-designated endowment fund. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



# San Jose Museum of Art Association

## Notes to the Financial Statements

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Additionally, a fund was established by a donor through a community foundation, to support the mission and activities of the Museum. The fund is a permanent endowment fund with a balance of \$1,481,576 at June 30, 2023. These funds are not included on the statement of financial position of the Museum at June 30, 2023. Distributions received from the community foundation are recorded as contributions with donor restrictions and are subject to the Museum's endowment spending policy. During 2023 and 2022, there were \$79,027 and \$78,410 of distributions paid to the Museum.

a. Interpretation of Relevant law

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

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

b. Investment Return Objectives, Risk Parameters and Strategies

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

# San Jose Museum of Art Association

## Notes to the Financial Statements

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

c. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the net assets held in perpetuity balance. There were no deficiencies of this nature that would be required to be reported as of June 30, 2023 and 2022.

d. Spending Policy

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

Endowment net asset composition by type of fund was as follows as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 95,754		\$ 95,754
Donor-restricted endowment funds		\$ 11,333,855	11,333,855
	\$ 95,754	\$ 11,333,855	\$ 11,429,609

# San Jose Museum of Art Association

## Notes to the Financial Statements

Endowment net asset composition by type of fund was as follows as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 93,141		\$ 93,141
Donor-restricted endowment funds		\$ 10,568,030	10,568,030
	\$ 93,141	\$ 10,568,030	\$ 10,661,171

Changes in endowment net assets were as follows for the fiscal year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2022	\$ 93,141	\$ 10,568,030	\$ 10,661,171
Investment return, net	7,888	1,044,927	1,052,815
Contributions			
Distributions		79,027	79,027
Amount appropriated for expenditure	(5,275)	(358,129)	(363,404)
Balance, June 20, 2023	\$ 95,754	\$ 11,333,855	\$ 11,429,609

Changes in endowment net assets were as follows for the fiscal year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2021	\$ 116,281	\$ 13,242,268	\$ 13,358,549
Investment return, net	(17,897)	(2,205,355)	(2,223,252)
Contributions			
Distributions		78,410	78,410
Amount appropriated for expenditure	(5,243)	(547,293)	(552,536)
Balance, June 20, 2022	\$ 93,141	\$ 10,568,030	\$ 10,661,171

# San Jose Museum of Art Association

## Notes to the Financial Statements

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### 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, 2023 and 2022 was \$118,322 and \$107,365, respectively.

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

In-kind contributions received by the Museum were as follows for the years ended June 30:

	2023	2022
In-kind rent	\$ 1,638,001	\$ 1,637,999
Volunteer services	144,412	125,303
Other	40,006	72,123
	<hr/>	<hr/>
Special events	1,822,419	1,835,425
	509,514	319,805
	<hr/>	<hr/>
Total in-kind support	\$ 2,331,933	\$ 2,155,230

The City of San José provides facilities for the Museum, the Museum's store, and the Museum's administrative offices at no charge to the Museum under the terms and conditions of a fifty-five year agreement dated June 1988. The Museum recognizes the in-kind rent as a gift that is conditional upon the Museum continuing to operate for the benefit of the public. The estimated fair value of rent for these facilities was \$1,638,001 and \$1,637,999 for the years ended June 30, 2023 and 2022, respectively. These amounts have been determined by an independent real estate professional and were recorded as support and expenses in the statement of activities and change in net assets. The value of the contributed in-kind rent was allocated to the Museum's programs, management and general and fundraising as shown on the statement of functional expenses based on estimates of square footage.

Volunteer services include hours donated by docents and other volunteers to run the Museum's programs. These services are recognized as in-kind revenues at their estimated fair value using estimated rates commensurate with rate that the Museum would expect to pay if the services were purchased. The Organization also receives a significant amount of donated services from other unpaid volunteers. No amounts have been recognized in the statements of activities for these fundraising and special projects services because the criteria for recognition have not been satisfied.

The Museum receives items to be sold at its annual special event auction. Contributed auction items are valued at their estimated fair value.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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Other in-kind donations are valued at an estimated fair value at the time the contribution is received. Other in-kind contributions are allocated to an appropriate functional category based on the donated items usage.

### **Note 12 - Concentrations:**

Contributions and grant for the years ended June 30, 2023 and 2022, included \$1,231,032 and \$1,054,062, respectively, received from the Board of Trustees. The Museum had contributions receivable from the Board of Trustees totaling \$340,401 and \$781,767 at June 30, 2023 and 2022, respectively.

The Museum receives contributions from organizations for which a Board of Trustee member is the owner or in an influential position. Such contributions and contributions receivable totaled \$254,751 and \$10,000, respectively, at June 30, 2023.

# San Jose Museum of Art Association

## Notes to the Financial Statements

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

The Museum's financial assets at June 30, 2023 and 2022 available for general expenditures over the next 12 months were as follows as of June 30:

Financial assets at year ended:	2023	2022
Cash and cash equivalents	\$ 3,592,630	\$ 3,692,256
Accounts receivable	55,920	21,021
Contributions receivable, net	870,843	1,701,534
Endowment investments	11,333,855	10,568,030
Investments	95,754	93,141
<b>Total financial assets</b>	<b>15,949,002</b>	<b>16,075,982</b>
Less amounts unavailable for general expenditure within one year:		
Net assets with purpose restrictions	(1,398,934)	(1,607,945)
Long-term contributions receivable	(233,032)	(350,000)
Endowment investments:		
Subject to appropriation (excluding \$427,067 and \$490,494, respectively, of planned appropriation)	(2,326,297)	(1,647,045)
Held in perpetuity	(8,580,491)	(8,565,327)
Board-designated for long-term endowment purposes	(90,966)	(88,484)
	<b>(12,629,720)</b>	<b>(12,258,801)</b>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 3,319,282</b>	<b>\$ 3,817,181</b>

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