

SAN DIEGO MUSEUM OF ART

Financial Statements and
Supplemental Information

Years Ended June 30, 2009 and 2008

SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information
Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
San Diego Museum of Art
San Diego, California

We have audited the accompanying statements of financial position of San Diego Museum of Art (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of San Diego Museum of Art's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Diego Museum of Art as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of San Diego Museum of Art taken as a whole. The accompanying schedule of contributions is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Carlsbad, California
November 12, 2009

SAN DIEGO MUSEUM OF ART**Statements of Financial Position**

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash:		
Unrestricted	\$ 2,867,047	\$ 3,545,184
Temporarily restricted	70,918	74,634
	<u>2,937,965</u>	<u>3,619,818</u>
Accounts receivable	141,989	280,065
Pledges receivable	827,133	842,635
Grants receivable	-	33,085
Inventory	215,600	230,864
Prepaid expenses	48,367	152,978
Property and equipment, net of accumulated depreciation	6,034,417	5,944,537
Deferred charges, net of accumulated amortization	170,065	178,130
Investments - charitable remainder trusts and gift annuities	2,148,008	2,600,685
Investments	54,086,174	70,595,646
Collections (Note 1)	-	-
	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 66,609,718</u>	<u>\$ 84,478,443</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 581,564	\$ 786,372
Accrued expenses	493,875	486,274
Long-term debt	5,700,000	5,700,000
	<u>6,775,439</u>	<u>6,972,646</u>
Total Liabilities	6,775,439	6,972,646
Net Assets:		
Unrestricted:		
Board designated endowment	34,809,767	47,328,872
Art acquisitions	874,801	1,157,888
Support organizations	145,945	185,400
Operating	4,936,169	5,193,055
	<u>40,766,682</u>	<u>53,865,215</u>
Temporarily restricted	8,418,762	2,668,836
Permanently restricted	10,648,835	20,971,746
	<u>19,067,597</u>	<u>23,640,582</u>
Total Net Assets	<u>59,834,279</u>	<u>77,505,797</u>
Total Liabilities and Net Assets	<u>\$ 66,609,718</u>	<u>\$ 84,478,443</u>

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Investment Activity:				
Revenue and Support:				
City of San Diego	\$ 359,345	\$ -	\$ -	\$ 359,345
County of San Diego	53,000	-	-	53,000
Contributions	2,414,636	60,473	750,000	3,225,109
Grants	55,447	-	-	55,447
Memberships	1,307,151	-	-	1,307,151
Support organizations	109,332	-	-	109,332
Admissions	756,948	-	-	756,948
Concerts	11,239	-	-	11,239
Education	30,549	-	-	30,549
Store sales, \$617,320, less cost of goods sold of \$325,268	292,052	-	-	292,052
Special events	308,492	-	-	308,492
Traveling exhibitions	69,395	-	-	69,395
Miscellaneous	383,561	-	-	383,561
Net assets released from restrictions, satisfaction of program restrictions	882,672	(882,672)	-	-
Total Revenue and Support	7,033,819	(822,199)	750,000	6,961,620
Investment Activity:				
Interest income	8,147	1,417	-	9,564
Endowment allocation	3,979,652	-	-	3,979,652
Total Investment Activity	3,987,799	1,417	-	3,989,216
Total Revenue, Support and Investment Activity	11,021,618	(820,782)	750,000	10,950,836
Expenses:				
Programs	3,131,809	-	-	3,131,809
Program services	3,374,233	-	-	3,374,233
Supporting services	3,772,300	-	-	3,772,300
Total Expenses	10,278,342	-	-	10,278,342
Change in Operations	743,276	(820,782)	750,000	672,494
Other Losses:				
Investment return	(10,362,749)	(3,559,716)	(441,895)	(14,364,360)
Endowment allocation	(3,479,060)	(500,592)	-	(3,979,652)
Total Other Losses	(13,841,809)	(4,060,308)	(441,895)	(18,344,012)
Change in Net Assets	(13,098,533)	(4,881,090)	308,105	(17,671,518)
Net Assets, beginning as previously stated	53,865,215	2,668,836	20,971,746	77,505,797
Reclassification of net assets based on change in law	-	10,631,016	(10,631,016)	-
Net Assets, beginning as reclassified	53,865,215	13,299,852	10,340,730	77,505,797
Net Assets, ending	\$ 40,766,682	\$ 8,418,762	\$ 10,648,835	\$ 59,834,279

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support and Investment Activity:				
Revenue and Support:				
City of San Diego	\$ 380,483	\$ -	\$ -	\$ 380,483
County of San Diego	70,000	-	-	70,000
Contributions	1,395,691	1,163,021	10,000	2,568,712
Grants	171,120	-	-	171,120
Memberships	1,442,807	-	-	1,442,807
Support organizations	149,227	-	-	149,227
Admissions	618,761	-	-	618,761
Concerts	96,026	-	-	96,026
Education	105,332	-	-	105,332
Store sales, \$663,254, less cost of goods sold of \$427,664	235,590	-	-	235,590
Special events	399,989	-	-	399,989
Traveling exhibitions	130,000	-	-	130,000
Miscellaneous	158,536	-	-	158,536
Net assets released from restrictions, satisfaction of program restrictions	300,200	(300,200)	-	-
Total Revenue and Support	5,653,762	862,821	10,000	6,526,583
Investment Activity:				
Interest income	42,755	8,585	-	51,340
Endowment allocation	3,861,013	-	-	3,861,013
Total Investment Activity	3,903,768	8,585	-	3,912,353
Total Revenue, Support and Investment Activity	9,557,530	871,406	10,000	10,438,936
Expenses:				
Programs	3,593,659	-	-	3,593,659
Program services	3,508,745	-	-	3,508,745
Supporting services	4,048,805	-	-	4,048,805
Total Expenses	11,151,209	-	-	11,151,209
Change in Operations	(1,593,679)	871,406	10,000	(712,273)
Other Losses:				
Investment return	(3,293,990)	(11,899)	(1,437,282)	(4,743,171)
Endowment allocation	(2,675,135)	-	(1,185,878)	(3,861,013)
Total Other Losses	(5,969,125)	(11,899)	(2,623,160)	(8,604,184)
Change in Net Assets	(7,562,804)	859,507	(2,613,160)	(9,316,457)
Net Assets, beginning	61,428,019	1,809,329	23,584,906	86,822,254
Net Assets, ending	\$ 53,865,215	\$ 2,668,836	\$ 20,971,746	\$ 77,505,797

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SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2009

	Programs							
	Curatorial	Design and Installation	Registrar	Art Acquisitions	Art Alive	Education	Membership	Library
Labor Costs:								
Payroll expenses:								
Wages	\$ 400,930	\$ 236,098	\$ 234,350	\$ -	\$ -	\$ 490,307	\$ 142,991	\$ 82,247
Payroll taxes	30,043	19,311	18,228	-	-	32,735	9,386	6,319
Employee benefits	70,145	67,058	59,710	-	-	80,240	14,205	11,236
	501,118	322,467	312,288	-	-	603,282	166,582	99,802
Temporary labor	-	31,862	3,091	-	-	4,970	2,628	-
	501,118	354,329	315,379	-	-	608,252	169,210	99,802
Other Expenses:								
Advertising	1,855	-	-	-	3,000	650	-	-
Amortization	-	-	-	-	-	-	-	-
Art acquisitions	-	-	-	68,725	-	-	-	-
Audio visual	638	1,471	-	-	-	124	-	-
Automobile	635	454	56	-	10	2,463	-	-
Books	219	-	-	-	-	1,740	-	5,260
Cash short (over)	-	-	-	-	-	-	-	-
Catalogs	1,163	-	-	-	-	933	-	386
Catering	623	-	-	-	9,940	3,165	10,447	-
Conservation/binding	32,505	-	64,880	-	-	-	-	-
Contract services	67,398	9,494	6,982	-	50,966	157,667	78,450	18,166
Credit card charges	-	-	-	-	-	-	11,427	-
Depreciation	82,551	30,956	30,956	-	-	82,550	15,478	10,319
Dues and subscriptions	-	25	-	-	-	468	72	4,378
Entertainment	4,176	383	173	-	116	622	49	-
Fees, other	258,490	917	1,593	-	260	2,066	4,423	313
Freight	32,811	333	302,254	-	-	1,236	-	-
Graphics	-	12,590	1,619	-	6,617	-	-	-
Insurance	58,298	3,269	101,977	-	-	9,752	477	6,658
Interest	44,860	2,516	2,673	-	-	5,346	367	5,124
Legal and audit	2,000	-	-	-	-	-	-	-
Miscellaneous	13,432	-	69	-	95	315	-	-
Photographs and slides	582	-	10,822	-	1,056	1,800	-	-
Postage	4,002	18	1,121	-	3,065	4,802	28,985	308
Printing	87,329	327	297	-	17,298	28,043	50,745	153
Rentals	3,441	4,368	518	-	10,291	4,548	738	1,567
Repairs and maintenance	2,344	6,246	8,164	-	-	3,024	319	502
Small tools	23	1,368	383	-	-	7,557	-	342
Supplies and materials	10,453	45,573	3,949	-	2,064	29,254	1,467	2,369
Telephone	5,157	1,435	3,613	-	-	11,378	1,662	976
Travel and seminars	34,778	2,320	2,991	-	-	3,075	58	-
Utilities	425,052	24,473	23,817	-	-	52,563	4,078	46,749
	1,174,815	148,536	568,907	68,725	104,778	415,141	209,242	103,570
Total Expenses	\$ 1,675,933	\$ 502,865	\$ 884,286	\$ 68,725	\$ 104,778	\$ 1,023,393	\$ 378,452	\$ 203,372
			Total Programs	\$ 3,131,809				

See accompanying notes to financial statements.

Program Services					Supporting Services				2008	
Public Information	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development	Total	Total	
\$ 180,783	\$ -	\$ 162,430	\$ 84,817	\$ 170,648	\$ 824,368	\$ 502,444	\$ 373,861	\$ 3,886,274	\$ 3,611,379	
13,432	-	12,719	5,041	12,938	49,314	37,040	25,599	272,105	257,073	
24,415	-	32,527	5,165	20,546	148,598	106,813	72,079	712,737	780,565	
218,630	-	207,676	95,023	204,132	1,022,280	646,297	471,539	4,871,116	4,649,017	
10,293	-	-	1,221	2,133	-	339,785	-	395,983	602,712	
228,923	-	207,676	96,244	206,265	1,022,280	986,082	471,539	5,267,099	5,251,729	
134,579	70	-	684	895	25	25	325	142,108	153,242	
-	-	-	-	-	8,065	-	-	8,065	8,065	
-	-	-	-	-	-	-	-	68,725	197,060	
675	-	-	-	-	-	-	-	2,908	15,238	
27	219	429	31	43	191	1,024	211	5,793	7,656	
-	1,404	-	-	-	749	-	74	9,446	22,560	
-	-	17	-	112	-	-	-	129	102	
721	-	-	590	33	3,027	-	3,371	10,224	10,210	
-	19,348	-	67,140	-	1,200	-	11,036	122,894	-	
-	-	-	-	-	-	-	-	97,385	137,888	
190,303	10,580	1,000	52,530	324	137,916	93,731	46,936	922,443	1,314,668	
-	-	11,427	-	16,636	-	-	-	39,490	43,726	
25,797	-	5,159	15,478	20,638	92,870	61,913	41,275	515,940	504,306	
5,833	-	1,310	-	-	32,321	150	1,436	45,993	51,264	
139	393	100	1,447	-	15,758	171	3,248	26,775	21,345	
1,310	26,830	950	163	986	82,949	5,162	12,442	398,854	363,077	
-	-	445	-	-	-	-	-	397,079	366,554	
12,697	-	-	-	-	-	-	-	33,523	47,141	
639	-	-	315	1,269	1,874	1,430	954	186,912	359,828	
491	-	-	242	976	1,088	1,101	734	65,518	157,275	
-	-	-	-	-	205,120	-	-	207,120	75,077	
61	59,484	-	293	335	5,969	-	1,226	81,279	92,680	
423	-	-	3,379	-	-	-	130	18,192	54,078	
12,231	1,974	4,965	977	563	4,501	351	6,566	74,429	101,347	
79,775	12,826	93	10,602	1,235	1,595	265	17,328	307,911	445,928	
711	5,876	7,211	6,182	733	1,429	48,233	1,364	97,210	106,062	
185	-	4,705	100	100	3,451	126,505	26,058	181,703	182,215	
763	-	-	-	-	12,594	46,937	-	69,967	23,875	
5,107	7,159	4,677	10,807	2,986	9,128	42,693	5,394	183,080	239,855	
16,950	181	4,316	475	2,600	5,548	5,153	3,483	62,927	61,959	
115	2,453	1,752	-	-	13,146	2,727	3,239	66,654	75,627	
6,115	-	-	2,040	8,216	10,803	8,196	8,485	620,587	659,574	
495,647	148,792	48,556	173,475	58,660	651,317	445,767	195,315	5,011,243	5,899,480	
\$ 724,570	\$ 148,792	\$ 256,232	\$ 269,719	\$ 264,925	\$ 1,673,597	\$ 1,431,849	\$ 666,854	\$ 10,278,342	\$ 11,151,209	
Total Program Services				\$ 3,374,233	Total Supporting Services			\$ 3,772,900		

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2008

	Programs							
	Curatorial	Design and Installation	Registrar	Art Acquisitions	Art Alive	Education	Membership	Library
Labor Costs:								
Payroll expenses:								
Wages	\$ 409,183	\$ 224,875	\$ 226,401	\$ -	\$ -	\$ 532,666	\$ 86,208	\$ 79,933
Payroll taxes	30,094	20,542	17,882	-	-	37,188	6,758	6,106
Employee benefits	66,840	69,399	77,767	-	-	101,792	21,198	14,945
	506,117	314,816	324,050	-	-	671,646	114,164	100,984
Temporary labor	10,853	43,421	4,775	-	-	8,964	2,942	-
	516,970	358,237	328,825	-	-	680,610	117,106	100,984
Other Expenses:								
Advertising	25	75	25	-	10,820	165	25	-
Amortization	-	-	-	-	-	-	-	-
Art acquisitions	-	-	-	197,060	-	-	-	-
Audio visual	763	13,815	-	-	660	-	-	-
Automobile	645	351	292	-	94	2,781	70	-
Books	364	48	16	-	126	1,385	-	11,395
Cash short (over)	-	-	-	-	-	-	-	-
Catalogs	1,448	-	-	-	-	224	2,417	135
Conservation/binding	33,645	-	104,243	-	-	-	-	-
Contract services	160,412	23,554	6,064	-	107,031	238,112	55,043	17,208
Credit card charges	-	-	-	-	-	-	13,545	-
Depreciation	70,603	30,258	30,258	-	-	80,689	5,043	5,044
Dues and subscriptions	190	115	229	-	-	952	-	11,812
Entertainment	4,629	307	108	-	930	1,077	71	-
Fees, other	211,540	1,029	3,513	-	10,590	41,155	3,144	414
Freight	1,097	-	365,079	-	-	-	-	-
Graphics	1,670	17,954	-	-	-	698	-	-
Insurance	198,957	-	74,930	-	-	2,949	-	-
Interest	-	-	-	-	-	-	-	-
Legal and audit	-	-	-	-	-	-	-	-
Miscellaneous	883	-	-	-	620	181	313	-
Photographs and slides	17,902	-	8,249	-	33	18,756	23	9
Postage	6,844	449	2,065	-	2,116	7,332	43,305	546
Printing	152,318	311	126	-	24,442	50,636	45,292	214
Rentals	9,797	4,864	258	-	10,520	4,726	504	1,538
Repairs and maintenance	1,039	2,546	5,673	-	-	2,106	7,873	482
Small tools	-	3,507	1,897	-	-	2,429	201	10,409
Supplies and materials	7,542	50,659	6,593	-	12,650	39,347	4,563	2,921
Telephone	5,798	1,410	3,380	-	-	11,088	1,502	1,021
Travel and seminars	18,842	120	3,008	-	2,000	3,315	1,402	-
Utilities	472,316	32,800	13,120	-	-	28,468	9,840	36,080
	1,379,269	184,172	629,126	197,060	182,632	538,551	194,176	99,228
Total Expenses	\$ 1,896,239	\$ 542,409	\$ 957,951	\$ 197,060	\$ 182,632	\$ 1,219,161	\$ 311,282	\$ 200,212
				Total Programs	\$ 3,593,659			

See accompanying notes to financial statements.

Program Services					Supporting Services				Total
Public Information	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development		
\$ 128,480	\$ -	\$ 166,863	\$ 48,285	\$ 162,389	\$ 744,354	\$ 405,533	\$ 394,209	\$ 3,611,379	
9,801	-	12,064	3,688	12,319	45,267	30,261	25,103	257,073	
<u>25,518</u>	-	<u>39,742</u>	<u>5,013</u>	<u>11,930</u>	<u>155,388</u>	<u>124,151</u>	<u>66,882</u>	<u>780,565</u>	
163,799	-	218,669	56,986	186,638	945,009	559,945	486,194	4,649,017	
-	-	-	-	4,114	-	524,083	3,583	602,712	
163,799	-	218,669	56,986	190,749	945,009	1,084,008	489,777	5,251,729	
140,958	603	-	-	25	446	25	50	153,242	
-	-	-	-	-	8,065	-	-	8,065	
-	-	-	-	-	-	-	-	197,060	
-	-	-	-	-	-	-	-	15,238	
139	50	278	76	38	567	2,062	233	7,656	
-	30	-	6,493	-	2,077	469	157	22,560	
-	-	82	-	20	-	-	-	102	
1,066	121	-	-	149	3,176	-	1,474	10,210	
-	-	-	-	-	-	-	-	137,888	
132,456	15,298	1,851	117,776	2,852	244,137	105,694	87,180	1,314,668	
-	-	13,545	-	16,636	-	-	-	43,726	
20,172	-	10,086	5,043	20,172	100,861	65,560	60,517	504,306	
6,198	83	950	-	-	30,036	245	454	51,264	
530	259	29	39	-	10,715	165	2,486	21,345	
2,803	14,195	660	977	869	62,565	3,305	6,318	363,077	
-	-	-	-	-	378	-	-	366,554	
26,819	-	-	-	-	-	-	-	47,141	
-	-	-	-	-	82,638	354	-	359,828	
-	-	-	-	-	157,275	-	-	157,275	
-	-	-	-	-	75,077	-	-	75,077	
51	75,617	-	3,465	315	10,435	23	777	92,680	
5,255	-	-	3,844	-	-	-	5	54,076	
17,469	1,343	4,809	1,157	2,124	4,984	572	6,232	101,347	
135,881	9,271	141	8,970	8,071	3,162	425	6,668	445,928	
504	3,634	9,615	11,654	504	1,282	46,007	655	106,062	
329	-	5,193	302	791	3,826	151,726	329	182,215	
-	-	-	-	107	3,249	1,453	623	23,875	
5,620	15,794	6,362	10,081	1,899	13,566	54,309	7,949	239,855	
15,671	169	4,549	534	2,435	8,593	4,246	3,563	61,959	
220	7,840	3,559	-	-	29,142	4,915	1,264	75,627	
19,680	-	-	-	-	16,401	7,909	22,960	659,574	
531,821	144,307	61,709	170,411	57,007	870,653	449,464	209,894	5,899,480	
\$ 695,620	\$ 144,307	\$ 280,378	\$ 227,397	\$ 247,756	\$ 1,815,662	\$ 1,533,472	\$ 699,671	\$ 11,151,209	
Total Program Services				\$ 3,508,745	Total Supporting Services			\$ 4,048,805	

SAN DIEGO MUSEUM OF ART

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (17,671,518)	\$ (9,316,457)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	515,940	504,306
Amortization	8,065	8,065
Net realized and unrealized losses on investments	15,613,158	7,029,345
Restricted contributions	(810,473)	(1,173,021)
Changes in operating assets and liabilities:		
Accounts receivable	138,076	(97,261)
Pledges receivable	15,502	(708,135)
Grants receivable	33,085	(33,085)
Inventory	15,264	129,251
Prepaid expenses	104,611	(29,961)
Accounts payable	(204,808)	135,099
Accrued expenses	7,601	34,296
Net Cash Used by Operating Activities	<u>(2,235,497)</u>	<u>(3,517,558)</u>
Cash Flows From Investing Activities:		
Net proceeds from sales of investments	896,314	3,364,751
Change in charitable remainder trusts and gift annuities	452,677	214,736
Purchases of property and equipment	<u>(605,820)</u>	<u>(128,775)</u>
Net Cash Provided by Investing Activities	743,171	3,450,712
Cash Flows From Financing Activities:		
Contributions restricted for programs	60,473	1,163,021
Contributions permanently restricted	750,000	10,000
Payments on long-term debt	<u>-</u>	<u>(100,000)</u>
Net Cash Provided by Financing Activities	<u>810,473</u>	<u>1,073,021</u>
Net Increase (Decrease) in Cash	(681,853)	1,006,175
Cash, beginning	<u>3,619,818</u>	<u>2,613,643</u>
Cash, ending	<u>\$ 2,937,965</u>	<u>\$ 3,619,818</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 65,518</u>	<u>\$ 157,275</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

San Diego Museum of Art (Museum) is a California nonprofit corporation formed in 1925. The Museum's purpose is to promote artistic interests, operate a museum and related facilities, maintain collections of art and assist in the education and entertainment of those interested in art. The Museum's support and revenue comes primarily from memberships, contributions, admissions and investment returns.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Museum may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Contributions

Many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets, except for works of art, are recorded at their fair values in the period received.

Use of Estimates

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

Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. The fair value is determined using quoted market prices. Alternative investments, for which quoted market prices are not available, are valued at fair value by the general partner of the partnership based on factors deemed relevant by the general partner including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. The fair values are reported by the Museum in good faith. Unrealized gains and losses are included in the change in net assets in the statements of activities.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2009 and 2008

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Investments, continued

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Accounts Receivable

Accounts receivable consist primarily of amounts due in less than one year from other museums and miscellaneous other small amounts. Because of the nature of the Museum's revenues and collection history, no allowance for doubtful accounts is deemed necessary at June 30, 2009 and 2008.

Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are discounted to their estimated net present value. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Inventory

Inventory consists primarily of books and catalogs for resale and is valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

The Museum capitalizes all expenditures for property and equipment in excess of \$1,000. Equipment and improvements are recorded at cost, or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 57 years.

Deferred Charges

Bond issuance costs and the bond underwriter's discount are capitalized and amortized using the straight-line method over the term of the bonds.

Charitable Remainder Trusts

Charitable remainder trusts are trusts established in connection with split-interest agreements, in which the donors or third-party beneficiaries receive specified distributions during the term of the agreements. Remainder trusts are recorded at net present value which approximates market value. Upon termination of the trusts, the Museum receives the assets remaining in the trusts.

Charitable Gift Annuities

All gift annuities are managed by local banks in accordance with a Trust Agreement. The gift annuity agreements are negotiated between the Museum and the donor/annuitant and are based on the rate tables approved by the California Insurance Commissioner for gift annuity agreements. Annuities are recorded at net present value which approximates market value.

The Museum does not allow distributions, except to cover expenditures payable to the annuitant and necessary administrative expenses of the fund, until the annuity matures.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Collections

The Museum maintains collections of art that are significant in relation to its total assets. Collection items acquired either through purchase or donation are not capitalized or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. The Museum employs curators to ensure that the collections are protected and preserved.

Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred.

Income Tax Status

The Museum is classified as a Section 501(c)(3) Organization under the Federal Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is exempt from federal income and state franchise taxes. The Museum, however, may occasionally be subject to taxes on unrelated business income. The Museum is not a private foundation.

Fair Value Measurements

The Financial Accounting Standards Board (FASB) issued the fair value measurement standard, which became effective for the Museum on December 1, 2008. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard does not require any new fair value measurements but applies to assets and liabilities that are required to be recorded at fair value under other accounting standards. The standard establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of June 30, 2009 and 2008, due to the relative short maturities of these instruments.

Subsequent Events

The Museum has evaluated subsequent events through November 12, 2009, which is the date the financial statements were available to be issued.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Endowments

In August 2008, the FASB issued a standard for endowments of not-for-profit organizations which is effective for fiscal years ending after December 15, 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The standard requires additional disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The standard also requires classifying the portion of a donor-restricted endowment that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

Note 2 – Investments

The fair market value of investments is categorized as follows for the year ended June 30, 2009:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 135,099	\$ -	\$ -	\$ 135,099
Mutual funds	39,941,580	-	-	39,941,580
Common stocks	6,307,352	-	-	6,307,352
Fixed income obligations	671,505	-	-	671,505
Alternative investments	-	-	9,178,646	9,178,646
	<u>\$ 47,055,536</u>	<u>\$ -</u>	<u>\$ 9,178,646</u>	<u>\$ 56,234,182</u>

Changes in the fair value of level 3 investments for the year ended June 30, 2009 are as follows:

Fair value, beginning	\$ 10,766,241
Transfers	841,089
Distributions	(35,001)
Investment expense	(25,790)
Investment losses	(2,367,893)
Fair value, ending	<u>\$ 9,178,646</u>

The fair market value of investments is categorized as follows for the year ended June 30, 2008:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 92,883	\$ -	\$ -	\$ 92,883
Mutual funds	52,427,125	-	-	52,427,125
Common stocks	9,073,408	-	-	9,073,408
Fixed income obligations	836,674	-	-	836,674
Alternative investments	-	-	10,766,241	10,766,241
	<u>\$ 62,430,090</u>	<u>\$ -</u>	<u>\$ 10,766,241</u>	<u>\$ 73,196,331</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 2 – Investments, continued

Changes in the fair value of level 3 investments for the year ended June 30, 2008 are as follows:

Fair value, beginning	\$	10,256,130
Transfers		1,041,821
Distributions		(548,960)
Investment expenses		(64,870)
Investment gains		82,120
Fair value, ending	\$	<u>10,766,241</u>

The following schedules summarize the investment return and its classification:

	June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest, dividends and capital gains	\$ 1,435,154	\$ 426,909	\$ -	\$ 1,862,063
Investment expenses	(120,213)	(40,375)	-	(160,588)
Net realized losses	(1,960,079)	(658,338)	-	(2,618,417)
Net unrealized losses	(9,717,611)	(3,277,130)	-	(12,994,741)
Change in charitable remainder trusts	-	(10,782)	(441,895)	(452,677)
Investment return	<u>\$ (10,362,749)</u>	<u>\$ (3,559,716)</u>	<u>\$ (441,895)</u>	<u>\$ (14,364,360)</u>

	June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest, dividends and capital gains	\$ 2,222,237	\$ -	\$ 670,041	\$ 2,892,278
Investment expenses	(254,246)	-	(85,394)	(339,640)
Net realized losses	(298,606)	-	(100,294)	(398,900)
Net unrealized losses	(4,963,375)	-	(1,667,070)	(6,630,445)
Change in charitable remainder trusts	-	(11,899)	(254,565)	(266,464)
Investment return	<u>\$ (3,293,990)</u>	<u>\$ (11,899)</u>	<u>\$ (1,437,282)</u>	<u>\$ (4,743,171)</u>

Note 3 – Pledges Receivable

Pledges receivable consist of the following:

	2009	2008
Due in one year or less	\$ 777,133	\$ 772,635
Due after one year through five years	50,000	70,000
	<u>\$ 827,133</u>	<u>\$ 842,635</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 4 – Property and Equipment

The Museum buildings constructed with Museum funds have been gifted to the City of San Diego. Other improvements to the real property by the Museum will revert to the City of San Diego at the termination of the lease agreement (Note 5). Improvements made and assets owned by the Museum are as follows:

	<u>2009</u>	<u>2008</u>
Building and improvements	\$ 11,900,071	\$ 11,640,961
Furniture, fixtures and equipment	360,831	358,637
Construction in progress	281,250	-
	<u>12,542,152</u>	<u>11,999,598</u>
Less accumulated depreciation	<u>(6,507,735)</u>	<u>(6,055,061)</u>
	<u>\$ 6,034,417</u>	<u>\$ 5,944,537</u>

Note 5 – Leases

The Museum leases real property located in Balboa Park from the City of San Diego. The lease term is 25 years commencing March 1, 1990 with an option to extend an additional 25 years at the Museum's option, and provides for renegotiation of lease provisions every five years. Renegotiation affects alterations in the terms and conditions of the lease solely to reflect any significant changes which have occurred during the interim period and shall not increase the consideration, terminate the lease, or shorten the term. Consideration for the lease is the Museum's agreement to operate an art museum and related services for the benefit of the general public. No amounts have been reflected in the financial statements for the use of the real property as no objective basis is available to measure the relative value.

Note 6 – Long-Term Debt

The Museum issued \$6,000,000 of variable rate demand certificates of participation through the County of San Diego. The purpose of the issue was to fund the remodeling of the Museum's office facilities and the renovation of the museum building. Payments of principal and interest with respect to the certificates are supported by an irrevocable direct-pay letter of credit issued by Wells Fargo Bank. The interest rate on the issue was 0.20% and 1.4% at June 30, 2009 and 2008, respectively. The principal is due in full on September 1, 2030. As of June 30, 2009, the Museum has made voluntary early principal payments of \$300,000.

Note 7 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Art acquisitions	\$ 1,327,700	\$ 1,327,700
Charitable remainder trusts and gift annuities	31,696	32,678
Education	80,342	90,159
Exhibits	232,977	731,416
Other special projects	164,557	486,883
Unappropriated endowment earnings	6,581,490	-
	<u>\$ 8,418,762</u>	<u>\$ 2,668,836</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 8 – Employee Retirement Plan

The Museum sponsors a tax deferred annuity plan that qualifies under Section 403(b) of the Internal Revenue Code and covers substantially all employees. On behalf of each eligible employee, the Museum contributes 5% of compensation, plus 5% of compensation in excess of Social Security Wage Base, and 100% of employee contributions up to 2% of compensation. Pension plan expense for the years ended June 30, 2009 and 2008 was \$164,882 and \$202,738, respectively. The Museum suspended contributions in March 2009.

Note 9 – Endowments

The Museum's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Museum has interpreted 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 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 that is 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

At June 30, 2009, the endowment net assets composition by type of fund consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,581,490	\$ 8,570,727	\$ 15,152,217
Charitable remainder trust assets to be included in endowment	-	-	2,078,108	2,078,108
Board-designated endowment funds	<u>34,809,767</u>	<u>-</u>	<u>-</u>	<u>34,809,767</u>
Total endowment funds	<u>\$ 34,809,767</u>	<u>\$ 6,581,490</u>	<u>\$ 10,648,835</u>	<u>\$ 52,040,092</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 9 – Endowments, continued

At June 30, 2008, the endowment net assets composition by type of fund consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 18,451,743	\$ 18,451,743
Charitable remainder trust assets to be included in endowment	-	-	2,520,003	2,520,003
Board-designated endowment funds	<u>47,328,872</u>	<u>-</u>	<u>-</u>	<u>47,328,872</u>
Total endowment funds	\$ <u>47,328,872</u>	\$ <u>-</u>	\$ <u>20,971,746</u>	\$ <u>68,300,618</u>

Changes in endowment net assets for the year ended June 30, 2009, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning as previously stated	\$ 47,328,872	\$ -	\$ 20,971,746	\$ 68,300,618
Net asset reclassification based on change in law	<u>-</u>	<u>10,631,016</u>	<u>(10,631,016)</u>	<u>-</u>
Endowment net assets, beginning as reclassified	47,328,872	10,631,016	10,340,730	68,300,618
Investment return:				
Investment income	1,435,154	426,909	-	1,862,063
Investment expenses	(120,213)	(40,375)	-	(160,588)
Net realized and unrealized losses	(11,395,408)	(3,935,468)	-	(15,330,876)
Change in charitable remainder trust assets	<u>-</u>	<u>-</u>	<u>(441,895)</u>	<u>(441,895)</u>
Total investment return	<u>(10,080,467)</u>	<u>(3,548,934)</u>	<u>(441,895)</u>	<u>(14,071,296)</u>
Contributions	1,040,422	-	750,000	1,790,422
Appropriation of endowment assets for expenditure	<u>(3,479,060)</u>	<u>(500,592)</u>	<u>-</u>	<u>(3,979,652)</u>
Endowment net assets, end of year	\$ <u>34,809,767</u>	\$ <u>6,581,490</u>	\$ <u>10,648,835</u>	\$ <u>52,040,092</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 9 – Endowments, continued

Changes in endowment net assets for the year ended June 30, 2008, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 53,154,041	\$ -	\$ 23,584,906	\$ 76,738,947
Investment return:				
Investment income	2,222,237	-	670,041	2,892,278
Investment expenses	(254,246)	-	(85,394)	(339,640)
Net realized and unrealized losses	(5,118,025)	-	(1,767,364)	(6,885,399)
Change in charitable remainder trust assets	-	-	(254,565)	(254,565)
Total investment return	<u>(3,150,034)</u>	<u>-</u>	<u>(1,437,282)</u>	<u>(4,587,315)</u>
Contributions	-	-	10,000	10,000
Appropriation of endowment assets for expenditure	<u>(2,675,135)</u>	<u>-</u>	<u>(1,185,878)</u>	<u>(3,861,013)</u>
Endowment net assets, end of year	\$ <u>47,328,872</u>	\$ <u>-</u>	\$ <u>20,971,746</u>	\$ <u>68,300,618</u>

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments and increase the value of the original contributed capital by an amount not less than the annual increase in the Consumer Price Index (CPI). In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (Target Return) over ten years. In achieving the Target Return, the Museum seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

Investment Strategy

The investment strategy of the Museum is to develop a diversified portfolio of investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

The Museum has a policy of appropriating for distribution each year an amount equal to 5% of the fair value as of the end of the prior year of the assets associated with the endowments. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow at the average annual rate of inflation over ten years. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2009 and 2008

Note 10 – Concentration of Credit Risk

The Museum maintains its cash in bank accounts which, at times, may exceed federal insured limits. The Museum manages the risk by using only high quality financial institutions.

Note 11 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 12 – Reclassifications

Certain items in the 2008 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

SUPPLEMENTAL INFORMATION

SAN DIEGO MUSEUM OF ART**Schedule of Contributions**

Years Ended June 30, 2009 and 2008

	June 30, 2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Individual gifts	\$ 1,715,000	\$ 11,200	\$ 750,000	\$ 2,476,200
Corporate support	194,061	30,000	-	224,061
Trustee support	264,839	9,472	-	274,311
Foundations	238,310	-	-	238,310
Gift annuities	-	9,801	-	9,801
Contribution box	2,426	-	-	2,426
	<u>\$ 2,414,636</u>	<u>\$ 60,473</u>	<u>\$ 750,000</u>	<u>\$ 3,225,109</u>

	June 30, 2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Individual gifts	\$ 736,405	\$ 55,400	\$ -	\$ 791,805
Trustee support	328,181	3,721	-	331,902
Corporate support	228,873	113,900	-	342,773
Foundations	100,643	990,000	10,000	1,100,643
Contribution box	1,589	-	-	1,589
	<u>\$ 1,395,691</u>	<u>\$ 1,163,021</u>	<u>\$ 10,000</u>	<u>\$ 2,568,712</u>

See independent auditors' report.