

SCHOOL OF ARTS AND CULTURE AT MHP  
(A California Nonprofit Public Benefit Corporation)

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FINANCIAL STATEMENTS

Year Ended June 30, 2014 with Comparative Totals  
for the Year Ended June 30, 2013

SCHOOL OF ARTS AND CULTURE AT MHP  
(A California Nonprofit Public Benefit Corporation)

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SECTION I  
FINANCIAL SECTION  
FINANCIAL STATEMENTS

**FOUNDERS**

Alexander W. Berger (1916-2005)  
Griffith R. Lewis (1930-2012)

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
School of Arts and Culture at MHP  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited the accompanying financial statements of School of Arts and Culture at MHP (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of School of Arts and Culture at MHP as of June 30, 2014, 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 Qualified Opinion on Report on Summarized Comparative Information**

As discussed in Note 3 to the financial statements, 1stACT Silicon Valley's board of directors created a separate 501(c)(3) entity and directed 1stACT Silicon Valley's Chief Executive Officer to execute an operating and financial agreement with the City of San Jose to fulfill its incubation duties. In May 2013, the School achieved complete independence from 1stACT Silicon Valley. The School established a separate board of directors and appointed a new Executive Director. The financial statements of 1stACT Silicon Valley have not been consolidated in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that a nonprofit organization that controls a related nonprofit organization through a majority voting interest in the board of the related organization and has an economic interest in the related organization must consolidate the related nonprofit organization.

### **Report on Summarized Comparative Information**

We have previously audited School of Arts and Culture at MHP's financial statements for the year ended June 30, 2013, and our report dated December 18, 2013 expressed a qualified opinion on those audited financial statements for the reason described in the Basis for Qualified Opinion paragraph. In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



BERGER LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
November 5, 2014

SCHOOL OF ARTS AND CULTURE AT MHP  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2014 with Comparative Totals as of June 30, 2013

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<b>ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 50,097	\$ 70,819
Accounts Receivable	30,356	27,926
Grants Receivable	337,144	344,000
Pledges Receivable	2,850	800
Donated Rent Receivable, Current Portion (See Note 5)	680,954	-
Prepaid Expenses and Deposits	<u>28,022</u>	<u>28,306</u>
Total Current Assets	<u>1,129,423</u>	<u>471,851</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	24,088	17,777
<b>OTHER ASSETS:</b>		
Donated Rent Receivable, Net of Current Portion (See Note 5)	<u>8,034,593</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,188,104</u>	<u>\$ 489,628</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities	\$ 162,549	\$ 191,713
Due to 1stACT Silicon Valley	-	540
Deferred Revenue	<u>11,120</u>	<u>53,403</u>
Total Current Liabilities	<u>173,669</u>	<u>245,656</u>
<b>NET ASSETS:</b>		
Unrestricted Net Assets (Deficit) (See Note 15)	(76,656)	33,472
Temporarily Restricted Net Assets	<u>9,091,091</u>	<u>210,500</u>
Total Net Assets (See Note 14)	<u>9,014,435</u>	<u>243,972</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,188,104</u>	<u>\$ 489,628</u>

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

SCHOOL OF ARTS AND CULTURE AT MHP  
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STATEMENT OF ACTIVITIES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014			2013
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
<b>SUPPORT AND REVENUE:</b>				
Support:				
Grants and Contributions	\$ 741,019	\$ 355,544	\$ 1,096,563	\$ 854,163
Contributions In-Kind (Excluding Donated Rent for Future Periods)	745,594	-	745,594	745,594
Donated Rent for Future Periods (See Note 5)	-	8,715,547	8,715,547	-
Total Support	<u>1,486,613</u>	<u>9,071,091</u>	<u>10,557,704</u>	<u>1,599,757</u>
Revenue:				
Rental Income	512,655	-	512,655	409,586
Tuition and Fees	186,790	-	186,790	61,616
Other Revenue	9,446	-	9,446	3,883
Interest Income	439	-	439	446
Total Revenue	<u>709,330</u>	<u>-</u>	<u>709,330</u>	<u>475,531</u>
Total Support and Revenue	<u>2,195,943</u>	<u>9,071,091</u>	<u>11,267,034</u>	<u>2,075,288</u>
Net Assets Released from Restrictions	<u>190,500</u>	<u>(190,500)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>2,386,443</u>	<u>8,880,591</u>	<u>11,267,034</u>	<u>2,075,288</u>
<b>EXPENSES:</b>				
Program Services:				
Arts Education Program	981,272	-	981,272	685,851
Events - Community Access and Engagement and Market Rental Program	558,473	-	558,473	495,559
Multicultural Arts Leadership Institute Facility	93,559	-	93,559	79,094
	<u>572,214</u>	<u>-</u>	<u>572,214</u>	<u>527,798</u>
Total Program Services	<u>2,205,518</u>	<u>-</u>	<u>2,205,518</u>	<u>1,788,302</u>
Supporting Services:				
Management and General	229,400	-	229,400	218,406
Fundraising	61,653	-	61,653	50,674
Total Supporting Services	<u>291,053</u>	<u>-</u>	<u>291,053</u>	<u>269,080</u>
Total Expenses	<u>2,496,571</u>	<u>-</u>	<u>2,496,571</u>	<u>2,057,382</u>
<b>CHANGE IN NET ASSETS</b> (See Note 15)	(110,128)	8,880,591	8,770,463	17,906
<b>NET ASSETS, Beginning of Year</b> (See Note 14)	<u>33,472</u>	<u>210,500</u>	<u>243,972</u>	<u>226,066</u>
<b>NET ASSETS, End of Year</b>	<u>\$ (76,656)</u>	<u>\$ 9,091,091</u>	<u>\$ 9,014,435</u>	<u>\$ 243,972</u>

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

SCHOOL OF ARTS AND CULTURE AT MHP  
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STATEMENT OF CASH FLOWS

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

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	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 8,770,463	\$ 17,906
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation Expense	4,749	2,445
Donated Rent for Future Periods	(8,715,547)	-
(Increase) Decrease in Assets:		
Accounts Receivable	(2,430)	(18,641)
Grants Receivable	6,856	(120,060)
Pledges Receivable	(2,050)	(50)
Prepaid Expenses and Deposits	284	992
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	(29,164)	85,942
Due to 1stACT Silicon Valley	(540)	(27,589)
Deferred Revenue	(42,283)	21,548
	(9,662)	(37,507)
Net Cash Used by Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	(11,060)	(18,388)
	(11,060)	(18,388)
Net Cash Used by Investing Activities		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(20,722)	(55,895)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	70,819	126,714
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 50,097	\$ 70,819

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



SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ORGANIZATION:

Guided by a twenty-month community planning process designed to re-imagine Mexican Heritage Plaza's future, a new vision for a School of Arts and Culture at MHP (the "Organization" or the "School") was created, embraced by the community and adopted by the City of San Jose in Spring 2011 (see Note 3). The School was formally launched in July 2011 with a vision to create a vibrant place of learning, culture and community that nurtures the soul and brings joy, skill building and a sense of belonging to children, families and all who participate. The goal of the School is to narrow the opportunity gap in arts education and learning, nurture the joy, creativity and well-being of our children and unleash the talent of our next generation of students, leaders, artists and consumers of culture. The School is leveraging a \$35 million cultural facility by providing unique and culturally relevant educational offerings of value to the children and families in our community while also creating a "community container" for arts programming with a network of multicultural arts partners. In January 2014, the School of Arts and Culture at MHP was named as the permanent operator of the Mexican Heritage Plaza, and entered into a long-term agreement with the City of San Jose to operate the facility (see Notes 5 and 7).

NOTE 2 - PROGRAM SERVICES:

Arts Education Program - The School provides a "multi-cultural and inter-cultural venue" for community events and programs that embrace all cultures, while exploring the artistic traditions, cultural history, and contemporary creative expression of Mexican and Latin American arts. School of Arts and Culture at MHP believes that the arts are powerful vehicles for human development and social transformation - by creating nurturing communities for children, especially those at risk. The School works to create a deep alignment in social and artistic goals. Its task is not to integrate the goals of social transformation and artistic excellence - but to, in the words of its colleagues in the El Sistema movement "reimagine them as one goal." Performance and exhibition is emphasized with the goal of working together toward a communal and joyful experience of creating art together - not as competitive pressure to see who is best.

The School is proud to offer children and the community an inspiring space of professional caliber for performance and exhibition as a vehicle to make their learning visible. Afterschool programs span ten weeks; summer day camps provide a full day of arts curriculum, a healthy lunch and two snacks. All sessions culminate in a student performance/exhibition open to the community. Classes include hip hop, breakdance, folklórico, capoeira, Brazilian dance, mariachi for both vocal and instrumental, paper maché, Mexican mural painting, self-portraiture drawing, painting, sculpture, tlacuilo drawing, classical guitar, Aztec dance and drumming, and theater. In addition to the classes offered on-site at the Mexican Heritage Plaza, the School works with local schools to provide arts learning and arts enrichment experiences for students. These activities are offered at the local school sites and often take place during regular school hours.

Events - Community Access and Engagement - School of Arts and Culture at MHP wishes to create as many opportunities as possible for the community to visit, use, perform, and learn at the Mexican Heritage Plaza. Like the School of Arts and Culture at MHP, the Plaza was created through extensive community processes. The School continues to honor the Plaza's work and history by ensuring a practice of open communication exists and that multiple entry points are developed over time.

The School's Community Access policy is defined primarily by the spirit of the Guiding Principles for Community Access and Engagement:

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 2 - PROGRAM SERVICES (Continued):

- Create welcoming, inclusive and affordable community gatherings and cultural offerings in partnership with artists, arts organizations and community focused nonprofits that capitalize on the strengths of this unique facility and location in the Eastside of San José.
- Develop partnerships with a network of artists, arts and community organizations that will leverage existing relationships and capacity while advancing and growing collective impact.
- Build community confidence, enthusiasm and trust over time through consistent communication, responsiveness and a reliable menu of opportunities.
- Develop a broad mix in programming with a focus on Mexican culture while activating opportunities for social integration with the broader multicultural artistic community present in San José.
- Facilitate multiple points of entry for community members, partner organizations as well as private clients.
- Create a relationship of reciprocity with organizations and the community through “mission compatible” activation of spaces.
- Embrace grassroots participation as critical to the success of School of Arts and Culture at MHP's vision, and provide opportunities for community feedback through face to face meetings, the Advisory Committee on Permanent Governance (ACPG) quarterly meetings and a feedback button on the Organization's website.

Events - Market Rental Program - School of Arts and Culture at MHP is located in a beautiful multi-use venue in a historically significant location and neighborhood. The site is the same place where civil rights activist Cesar Chavez organized the first grape boycott with the farmworker movement. The house he lived in is located a quarter of a mile away from the School.

The business plan written by the MHP Steering Committee in 2011 identifies rental income from the facility as an important component of the long term sustainability of School of Arts and Culture at MHP. The School has partnered with a for profit company, Giant Creative Services to ensure a careful, creative and attentive approach to market rate rentals. This close partnership with the School staff has successfully increased the usage of the facility by a number of arts organizations and private events in a manner never before seen under previous operators. The School's Market Rental Program generates revenue that then directly supports the school program.

Multicultural Arts Leadership Institute (MALI) - The Multicultural Arts Leadership Institute (MALI) is a professional development opportunity for leaders of color in the arts, culture and entertainment sectors. Currently, so many people of color serve their community through the arts but often work in isolation and without much support. The MALI program was created by people of color, with people of color distinctly in mind. It was piloted under the auspices of 1stACT Silicon Valley from 2008 to 2011 and formally became a stand-alone program operated by School of Arts and Culture at MHP in July 2011. The mission of MALI aligns directly with the School of Arts and Culture at MHP's intention to strengthen the multicultural arts community and cultivate new audiences and cross-cultural experiences.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 2 - PROGRAM SERVICES (Continued):

MALI's presence at School of Arts and Culture at MHP provides a network of over 70 graduates who are strong multi-cultural leaders who can be leveraged to advance the vision of the School. The School provides a home for MALI.

Facility - The School of Arts and Culture at MHP operates the Mexican Heritage Plaza, which is owned by the City of San Jose. The School leverages the \$35 million facility to offer its programs, including quality arts education courses to the community through its Arts Education Program; an arts leadership program for people of color (i.e. the Multicultural Arts Leadership Institute); and community events through its Community Access and Engagement and Market Rental programs. In this way, the long under-utilized facility is activated and transformed into a vibrant hub of community activity.

NOTE 3 - 1STACT SILICON VALLEY:

After a twenty-month community process to re-envision the Mexican Heritage Plaza, a Community Steering Committee and the City of San Jose asked 1stACT Silicon Valley to be the incubator operator of the School of Arts and Culture at MHP (see Notes 5 and 7) for up to 3 years. During incubation, 1stACT Silicon Valley's board of directors and Chief Executive Officer were asked to steward the vision, operate the facility, test the business model and prepare for a permanent operator. To that end, 1stACT Silicon Valley's board of directors created a separate 501(c)(3) entity and directed 1stACT Silicon Valley's Chief Executive Officer to execute an operating and financial agreement with the City of San Jose to fulfill its incubation duties. In May 2013, the School achieved complete independence from 1stACT Silicon Valley. The School established a separate board of directors and appointed a new Executive Director.

The financial statements of 1stACT Silicon Valley have not been consolidated in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that a nonprofit organization that controls a related nonprofit organization through a majority voting interest in the board of the related organization and has an economic interest in the related organization must consolidate the related nonprofit organization.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of School of Arts and Culture at MHP have been prepared on the accrual basis of accounting.

Basis of Presentation - In accordance with accounting principles generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, property and equipment fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted support received in the current period for which the restrictions have been met in the current period.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, 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, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

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 Organization. Unobservable inputs reflect the Organization'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.

SCHOOL OF ARTS AND CULTURE AT MHP  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 4 - 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 Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Accounts, Grants and Pledges Receivable - The Organization considers all accounts, grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Promises to Give - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. The Organization considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 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 is 5 to 7 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2014 and 2013. The accrued vacation balance as of June 30, 2014 and 2013 was \$31,359 and \$17,407 respectively.

Revenue Recognition - The Organization 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.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Donated space is recorded at the estimated fair value of comparable property as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are based on square footage and/or the number of full time equivalent staff members in each activity.

Income Taxes - School of Arts and Culture at MHP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701d of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization 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 Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns could be subject to examination by federal taxing authorities, generally for 3 years after they are filed. The Organization's state returns could be subject to examination by state taxing authorities, generally for 4 years after they are filed.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended June 30, 2014 and 2013 was \$44,030 and \$50,980 respectively.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2014 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2014. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 5, 2014.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 5 - DONATED RENT RECEIVABLE:

In January 2014, the School of Arts and Culture at MHP entered into a fifteen year agreement, effective July 1, 2014 with the City of San Jose to act as the permanent operator of the Mexican Heritage Plaza. Under this agreement the Organization operates the Plaza for no rent and both parties may elect to extend the term of the agreement for 2 terms of ten years each (see Note 7).

As management has determined that it is unlikely that either party would terminate the agreement, during the initial fifteen year term, the Organization recognized the benefit of the fair value of the rent received through this agreement as donated rent receivable and temporarily restricted support. The Organization has established the fair market value of the rent under the agreement at \$680,954 per year. The annual rent expense will be included in the statement of activities beginning with the year ending June 30, 2015. The net present value of the future contribution benefit has been computed at a discount rate of 2.2% based upon prevailing rates when the agreement was entered into and is recorded as donated rent receivable on the statement of financial position.

Donated rent receivable as of June 30, 2014 consisted of the following:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 680,954
2016	341,645
2017	516,901
2018	528,388
2019	540,131
Thereafter	<u>6,107,528</u>
Total	8,715,547
Donated Rent Receivable, Current Portion	<u>(680,954)</u>
Donated Rent Receivable, Net of Current Portion	<u>\$ 8,034,593</u>

NOTE 6 - PROPERTY AND EQUIPMENT:

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

	<u>2014</u>	<u>2013</u>
Office Furniture	\$ 4,147	\$ 4,147
Theater Equipment	<u>27,197</u>	<u>16,138</u>
	31,344	20,285
Less: Accumulated Depreciation	<u>(7,256)</u>	<u>(2,508)</u>
Property and Equipment, Net	<u>\$ 24,088</u>	<u>\$ 17,777</u>

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 6 - PROPERTY AND EQUIPMENT (Continued):

Depreciation expense for the years ended June 30, 2014 and 2013 was \$4,749 and \$2,445 respectively.

NOTE 7 - MEXICAN HERITAGE PLAZA INTERIM INCUBATOR OPERATOR AND USE AGREEMENT:

1stACT Silicon Valley (see Notes 3 and 5) entered into an agreement with the City of San Jose (the "City") effective July 1, 2011 through June 30, 2014 for the operation and use of the Mexican Heritage Plaza (the "Plaza") located at 1700 Alum Rock Avenue, San Jose, California. The Plaza consists of a theater, pavilion, classrooms, gallery, studio, main office, box office, gardens, foundation, open air plaza, parking lots, and other improvements. In January 2012, after the School of Arts and Culture at MHP had been established as a separate 501(c)(3) organization, the agreement with the City of San Jose was amended, making the School the interim operator of the Mexican Heritage Plaza. As a result, the School accepted all responsibilities of operation of the space that 1stACT Silicon Valley previously held.

As part of the agreement, the City will provide financial support on a fiscal year basis subject to annual appropriation by the City Council. The City's financial support is intended to supplement School of Arts and Culture at MHP's other funding sources and shall be used by School of Arts and Culture at MHP to further its obligations under this agreement at the Plaza.

The City intends to provide annual financial support to School of Arts and Culture at MHP ("Operations Payment") for the operations and use of the Plaza as follows:

The City's financial contribution shall consist of:

**Quarterly Operations Payments**

Quarterly operations payments shall be structured based on the City providing a match for earned and contributed income raised by School of Arts and Culture at MHP. The match by the City shall not exceed the following maximum amounts in each year of the agreement:

Year 1 (July 1, 2011 through June 30, 2012) - \$540,000

Year 2 (July 1, 2012 through June 30, 2013) - \$495,000

Year 3 (July 1, 2013 through June 30, 2014) - \$450,000

The match will be determined based on actual revenue collected and reported by School of Arts and Culture at MHP to the City's Director, subject to verification by the City's Director. The parties agree that up to 20% of School of Arts and Culture at MHP's targeted revenue amounts may consist of in-kind and pro bono goods and services.



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NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - MEXICAN HERITAGE PLAZA INTERIM INCUBATOR OPERATOR AND USE  
AGREEMENT (Continued):

**Annual Appropriation of Funds for Capital Repairs and Capital Replacements at the Plaza**

The City's annual appropriation of funds for Capital Repairs and Capital Replacements at the Plaza shall be as follows:

Year 1 (July 1, 2011 through June 30, 2012) - \$60,000

Year 2 (July 1, 2012 through June 30, 2013) - \$55,000

Year 3 (July 1, 2013 through June 30, 2014) - \$50,000

According to the term of the agreement, the name for the new model approved by the City Council in which children's arts education programs are the primary focus of programming at the Plaza will be the "School of Arts and Culture".

In January 2014, School of Arts and Culture at MHP entered into a new fifteen year agreement with the City, effective July 1, 2014 to act as the permanent operator of the Mexican Heritage Plaza. Following the expiration in June 30, 2029, both parties may elect to extend the term of the agreement for 2 terms of ten years each (see Note 5).

Under the new agreement, the quarterly operations payments to the Organization will be structured to match earned and contributed income raised by the Organization. The match will be limited to \$450,000 per year in years one to five and \$425,000 per year in years six through termination. Other terms of the match remain unchanged from the previous agreement.

Under the new agreement, annual appropriations for Capital Repairs and Capital Replacements of \$50,000 per year are earmarked for the Plaza for years one to five and \$100,000 in years six through termination. \$25,000 of the \$100,000 is a reallocation from the reduction in the operation payments and is contingent upon a City match of \$25,000.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

The Organization's temporarily restricted net assets at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Purpose Restrictions:		
K-12 Education and Summer Camps	\$ 50,000	\$ -
Multicultural Arts Leadership Institute	20,875	35,000
Mi Pueblo Scholarships	18,400	-
Summer Day Camps	-	8,000
Afterschool Program	-	50,000
Pre-K Program	-	5,000
Time Restrictions:		
Donated Rent for Future Periods	8,715,547	-
General Support for Future Periods	<u>286,269</u>	<u>112,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,091,091</u>	<u>\$ 210,500</u>

See Note 14 for beginning net assets reclassification.

NOTE 9 - CONFLICT OF INTEREST POLICY:

Included among the Organization's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

NOTE 10 - CONTINGENCIES:

Grants and contracts awarded to School of Arts and Culture at MHP are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs.

Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

SCHOOL OF ARTS AND CULTURE AT MHP  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 11 - CONCENTRATIONS:

During the years ended June 30, 2014 and 2013, the Organization received 95% and 61% of its total support and revenue (including in-kind) directly from the City of San Jose. A reduction in awards of grants from the City could materially impact the services the Organization provides. In addition, the School of Arts and Culture at MHP maintains that it is unlikely that the City of San Jose would be able to rent the entire facility to any single tenant given the unique nature of the space and the community directive to maintain arts and cultural programming at the site.

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTION:

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

	2014
Purpose Restriction:	
Afterschool Program	\$ 50,000
Multicultural Arts Leadership Institute	15,000
Summer Day Camps	8,000
Pre-K Program	5,000
Time Restriction:	
General Operating	112,500
Total Net Assets Released from Restrictions	\$ 190,500

NOTE 13 - CONTRIBUTIONS IN-KIND (EXCLUDING DONATED RENT FOR FUTURE PERIODS):

The estimated fair value of donated facilities, supplies and expert services received are recorded as contributions. During the years ended June 30, 2014 and 2013 the following contributions in-kind (excluding donated rent for future periods) were received:

	2014	2013
Facilities	\$ 729,594	\$ 729,594
Professional Services	16,000	16,000
Total Contributions In-Kind	\$ 745,594	\$ 745,594

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 14 - BEGINNING NET ASSETS RECLASSIFICATION:

During the year ended June 30, 2013, the School became aware that a time restricted grant was incorrectly included in unrestricted net assets as of June 30, 2012. Temporarily restricted net assets were understated by \$123,750 and unrestricted net assets were overstated by \$123,750 as of June 30, 2012.

Reclassifications related to net assets are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, Beginning of Year, as Originally Reported	\$ 104,566	\$ 121,500	\$ 226,066
Reclassification	<u>(123,750)</u>	<u>123,750</u>	<u>-</u>
Net Assets, Beginning of Year, as Restated	<u>\$ (19,184)</u>	<u>\$ 245,250</u>	<u>\$ 226,066</u>

NOTE 15 - UNRESTRICTED NET DEFICIT:

Although the Organization's unrestricted deficit totaled \$76,656 at June 30, 2014, the temporarily restricted net asset balance included \$286,269 of time restricted general support for future periods. The \$286,269 of time restricted general support for future periods is included in grants receivable at June 30, 2014 and represents funds to be collected in and used for operations in the year ending June 30, 2015. Of this amount, over \$230,000 has been collected and released from restriction subsequent to June 30, 2014. Management has budgeted for and expects the Organization to get back to a positive unrestricted net assets balance by June 30, 2015.

SECTION II  
SUPPLEMENTARY INFORMATION

SCHOOL OF ARTS AND CULTURE AT MHP  
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SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	PROGRAM SERVICES					SUPPORTING SERVICES			TOTALS	
	Arts Education Program	Events - Community Access and Engagement and Market Rental Program	Multicultural Arts Leadership Institute	Facility	Total	Management and General	Fundraising	Total	2014	2013
<b>EXPENSES:</b>										
Salaries and Wages	\$ 110,627	\$ 57,097	\$ 10,706	\$ 103,489	\$ 281,919	\$ 60,666	\$ 14,274	\$ 74,940	\$ 356,859	\$ 329,153
Employee Benefits	15,072	7,779	1,459	14,100	38,410	8,265	1,945	10,210	48,620	39,575
Payroll Taxes	8,528	4,402	825	7,977	21,732	6,242	1,100	7,342	29,074	28,095
Total Salaries and Benefits	134,227	69,278	12,990	125,566	342,061	75,173	17,319	92,492	434,553	396,823
Occupancy, In-Kind	298,550	166,056	21,888	218,731	705,225	21,888	2,481	24,369	729,594	729,594
Outside Services	210,433	112,947	27,300	36,182	386,862	2,298	33,399	35,697	422,559	321,918
Sponsorship Expense	256,327	-	-	-	256,327	-	-	-	256,327	-
Event Rental Expense	1,584	158,862	-	-	160,446	3,927	244	4,171	164,617	165,065
Utilities	50,777	26,208	4,914	47,501	129,400	27,845	6,552	34,397	163,797	155,488
Repairs and Maintenance	-	-	-	125,592	125,592	78	-	78	125,670	101,986
Professional Services, Including In-Kind	1,500	4,500	-	-	6,000	54,625	-	54,625	60,625	63,426
Supplies	20,281	2,629	1,189	14,827	38,926	4,865	86	4,951	43,877	42,464
Marketing / Recruiting Expense	3,393	15,561	-	-	18,954	-	971	971	19,925	24,146
Insurance	-	-	-	-	-	15,735	-	15,735	15,735	18,487
Travel	282	-	9,898	-	10,180	66	264	330	10,510	8,963
Conferences, Conventions and Meetings	801	14	10,175	-	10,990	1,092	49	1,141	12,131	8,385
Telephone	-	1,278	-	-	1,278	6,477	-	6,477	7,755	6,861
Printing and Publication	712	-	-	-	712	3,824	-	3,824	4,536	5,125
Bank Charges	-	-	-	-	-	9,226	-	9,226	9,226	2,901
Dues and Subscriptions	588	380	13	438	1,419	1,697	-	1,697	3,116	1,347
Taxes and Licenses	-	-	-	2,000	2,000	(619)	-	(619)	1,381	810
Other Operating Expenses	-	-	-	-	-	-	-	-	-	695
Postage and Shipping	345	-	-	-	345	395	98	493	838	453
Training	-	-	5,050	-	5,050	-	-	-	5,050	-
Total Expenses Before Depreciation	979,800	557,713	93,417	570,837	2,201,767	228,592	61,463	290,055	2,491,822	2,054,937
Depreciation	1,472	760	142	1,377	3,751	808	190	998	4,749	2,445
Total Functional Expenses	\$ 981,272	\$ 558,473	\$ 93,559	\$ 572,214	\$ 2,205,518	\$ 229,400	\$ 61,653	\$ 291,053	\$ 2,496,571	\$ 2,057,382
Percentage of Total	39.3 %	22.4 %	3.7 %	22.9 %	88.3 %	9.2 %	2.5 %	11.7 %	100.0 %	