

School of Arts and Culture at MHP

**Financial Statements and
Supplementary Information**

June 30, 2015

**(With Comparative Totals
For the Year Ended June 30, 2014)**



TABLE OF CONTENTS

	<u>Page No</u>
I. Financial Section	
Independent Auditor's Report	1 - 2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16
II. Supplementary Information	
Schedule of Functional Expenses	17



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
School of Arts and Culture at MHP
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, 2015, 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, 2015, 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.

Report on Summarized Comparative Information

School of Arts and Culture at MHP's financial statements for the year ended June 30, 2014 were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino^{LLP} as of January 1, 2015, and whose report dated November 5, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 17 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.



Armanino^{LLP}
San Jose, California

November 10, 2015

SECTION I
FINANCIAL SECTION
FINANCIAL STATEMENTS

SCHOOL OF ARTS AND CULTURE AT MHP
Statement of Financial Position
June 30, 2015
(With Comparative Totals as of June 30, 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	\$ 147,825	\$ 50,097
Accounts receivable	32,062	30,356
Grants receivable	293,693	337,144
Pledges receivable	3,500	2,850
Donated rent receivable, current portion (see Note 5)	341,645	680,954
Prepaid expenses and deposits	27,850	28,022
Total current assets	846,575	1,129,423
Property and equipment, net	80,191	24,088
Other assets		
Donated rent receivable, net of current portion (see Note 5)	7,692,948	8,034,593
Total assets	\$ 8,619,714	\$ 9,188,104

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 171,749	\$ 162,549
Deferred revenue	50,948	11,120
Total current liabilities	222,697	173,669
Net assets		
Unrestricted net assets (deficit)	40,991	(76,656)
Temporarily restricted net assets	8,356,026	9,091,091
Total net assets	8,397,017	9,014,435
Total liabilities and net assets	\$ 8,619,714	\$ 9,188,104

The accompanying notes are an integral part of these financial statements.

SCHOOL OF ARTS AND CULTURE AT MHP
Statement of Activities
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Support				
Grants and contributions	\$ 474,215	\$ 481,917	\$ 956,132	\$ 1,096,563
Contributions in-kind (excluding donated rent for future periods)	300	-	300	745,594
Donated rent for future periods (see Note 5)	-	-	-	8,715,547
Total support	<u>474,515</u>	<u>481,917</u>	<u>956,432</u>	<u>10,557,704</u>
Revenue				
Rental income	436,846	-	436,846	512,655
Tuition and fees	260,857	-	260,857	186,790
Other revenue	8,938	-	8,938	9,446
Interest income	465	-	465	439
Total revenue	<u>707,106</u>	<u>-</u>	<u>707,106</u>	<u>709,330</u>
Total support and revenue	<u>1,181,621</u>	<u>481,917</u>	<u>1,663,538</u>	<u>11,267,034</u>
Net assets released from restrictions	<u>1,216,982</u>	<u>(1,216,982)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>2,398,603</u>	<u>(735,065)</u>	<u>1,663,538</u>	<u>11,267,034</u>
Expenses				
Program services				
Arts Education Program	747,647	-	747,647	981,272
Events - Community Access and Engagement and Market Rental Program	575,251	-	575,251	558,473
Multicultural Arts Leadership Institute Facility	91,213	-	91,213	93,559
Facility	513,170	-	513,170	572,214
Total program services	<u>1,927,281</u>	<u>-</u>	<u>1,927,281</u>	<u>2,205,518</u>
Supporting services				
Management and general	274,451	-	274,451	229,400
Fundraising	79,224	-	79,224	61,653
Total supporting services	<u>353,675</u>	<u>-</u>	<u>353,675</u>	<u>291,053</u>
Total expenses	<u>2,280,956</u>	<u>-</u>	<u>2,280,956</u>	<u>2,496,571</u>
Change in net assets (see Note 3)	117,647	(735,065)	(617,418)	8,770,463
Net assets, beginning of year	<u>(76,656)</u>	<u>9,091,091</u>	<u>9,014,435</u>	<u>243,972</u>
Net assets, end of year	<u>\$ 40,991</u>	<u>\$ 8,356,026</u>	<u>\$ 8,397,017</u>	<u>\$ 9,014,435</u>

The accompanying notes are an integral part of these financial statements.

SCHOOL OF ARTS AND CULTURE AT MHP
Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (617,418)	\$ 8,770,463
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	8,666	4,749
Donated rent for future periods	-	(8,715,547)
Occupancy, in-kind	680,954	-
Change in operating assets and liabilities		
Accounts receivable	(1,706)	(2,430)
Grants receivable	43,451	6,856
Pledges receivable	(650)	(2,050)
Prepaid expenses and deposits	172	284
Accounts payable and accrued liabilities	9,200	(29,164)
Due to 1stACT Silicon Valley	-	(540)
Deferred revenue	<u>39,828</u>	<u>(42,283)</u>
Net cash provided by (used in) operating activities	<u>162,497</u>	<u>(9,662)</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(64,769)</u>	<u>(11,060)</u>
Net cash used in investing activities	<u>(64,769)</u>	<u>(11,060)</u>
Net increase (decrease) in cash and cash equivalents	97,728	(20,722)
Cash and cash equivalents, beginning of year	<u>50,097</u>	<u>70,819</u>
Cash and cash equivalents, end of year	<u>\$ 147,825</u>	<u>\$ 50,097</u>

The accompanying notes are an integral part of these financial statements.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

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. 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).

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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

2. Program Services (continued)

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:

- 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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

2. Program Services (continued)

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.

MALI's presence at School of Arts and Culture at MHP provides a network of graduates who are strong multicultural 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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

3. Change in Net Assets

During the year ended June 30, 2015, the Organization experienced a decrease in net assets of \$617,418 as noted in the 2015 "Total" column of the Statement of Activities. A significant amount of the decrease can be attributed to "Occupancy, in-kind" expense.

	Unrestricted	Temporarily Restricted	Total
Change in net assets	\$ 117,647	\$ (735,065)	\$ (617,418)
Add back:			
Occupancy, in-kind expense	680,954	-	680,954
Less:			
Release from time restriction (see Note 12)	(680,954)	680,954	-
Change in net assets, excluding occupancy, in-kind expense	\$ 117,647	\$ (54,111)	\$ 63,536

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.

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.

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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

4. Summary of Significant Accounting Policies (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2014, 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.

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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

4. Summary of Significant Accounting Policies (continued)

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 14 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, 2015 and 2014. The accrued vacation balance as of June 30, 2015 and 2014 was \$30,072 and \$31,359, 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.

Contributions

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

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

4. Summary of Significant Accounting Policies (continued)

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, 2015 and 2014 was \$57,037 and \$44,030, respectively.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2015 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, 2015. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 10, 2015.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

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 is included in the statement of activities beginning with the year ended 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, 2015 consisted of the following:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 341,645
2017	516,901
2018	528,388
2019	540,131
2020	552,134
Thereafter	<u>5,555,394</u>
Total	8,034,593
Donated rent receivable, current portion	<u>(341,645)</u>
Donated rent receivable, net of current portion	<u>\$ 7,692,948</u>

6. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Office furniture	\$ 6,372	\$ 4,147
Theater equipment	41,366	27,197
Leasehold improvements	<u>48,375</u>	<u>-</u>
	96,113	31,344
Less: accumulated depreciation	<u>(15,922)</u>	<u>(7,256)</u>
Property and equipment, net	<u>\$ 80,191</u>	<u>\$ 24,088</u>

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

6. Property and Equipment (continued)

Depreciation expense for the years ended June 30, 2015 and 2014 was \$8,666 and \$4,749, respectively.

7. Mexican Heritage Plaza Operator and Use Agreement

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. Included in this \$100,000 is \$25,000 representing a reallocation from the reduction in the operation payments and is contingent upon a City match of \$25,000.

8. Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Purpose restrictions		
K-12 education and summer camps	\$ 113,000	\$ 50,000
Fiscal sponsorship	25,058	18,400
Multicultural Arts Leadership Institute	875	20,875
Time restrictions		
Donated rent for future periods	8,034,593	8,715,547
General support for future periods	<u>182,500</u>	<u>286,269</u>
Total temporarily restricted net assets	<u>\$ 8,356,026</u>	<u>\$ 9,091,091</u>

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

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.

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.

11. Concentrations

During the years ended June 30, 2015 and 2014, the Organization received 53% and 95% 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.

SCHOOL OF ARTS AND CULTURE AT MHP
Notes to Financial Statements
June 30, 2015

12. Net Assets Released from Restrictions

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

	2015
Purpose restriction	
K-12 education and summer camps	\$ 133,000
Property and equipment	58,375
Multicultural Arts Leadership Institute	49,000
Fiscal sponsorship	9,384
Time restriction	
Donated rent for future periods	680,954
General operating	286,269
Total net assets released from restrictions	\$ 1,216,982

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, 2015 and 2014, the following contributions in-kind (excluding donated rent for future periods) were received:

	2015	2014
Facilities	\$ -	\$ 729,594
Professional services	300	16,000
Total contributions in-kind (excluding donated rent for future periods)	\$ 300	\$ 745,594

SECTION II
SUPPLEMENTARY INFORMATION

SCHOOL OF ARTS AND CULTURE AT MHP
Schedule of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	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	2015	2014
Expenses										
Salaries and wages	\$ 86,684	\$ 82,527	\$ 12,130	\$ 76,248	\$ 257,589	\$ 68,345	\$ 20,005	\$ 88,350	\$ 345,939	\$ 356,859
Employee benefits	14,226	10,144	1,037	22,406	47,813	6,361	1,296	7,657	55,470	48,620
Payroll taxes	6,870	6,582	919	6,742	21,113	6,852	1,149	8,001	29,114	29,074
Total salaries and benefits	107,780	99,253	14,086	105,396	326,515	81,558	22,450	104,008	430,523	434,553
Occupancy, in-kind	278,646	154,985	20,429	204,150	658,210	20,427	2,317	22,744	680,954	729,594
Outside services	273,893	123,108	27,798	48,880	473,679	6,335	44,393	50,728	524,407	422,559
Utilities	41,405	38,970	6,495	24,518	111,388	47,088	3,897	50,985	162,373	163,797
Event rental expense	7,189	139,807	-	-	146,996	3,761	609	4,370	151,366	164,617
Repairs and maintenance	-	-	-	107,551	107,551	-	-	-	107,551	125,670
Supplies	23,670	100	4,095	18,077	45,942	7,682	69	7,751	53,693	43,877
Professional services, including in-kind	-	-	-	-	-	51,333	-	51,333	51,333	60,625
Marketing / recruiting expense	8,136	14,867	-	-	23,003	-	4,726	4,726	27,729	19,925
Insurance	-	-	-	-	-	16,018	-	16,018	16,018	15,735
Bank charges	-	-	-	-	-	12,890	-	12,890	12,890	9,226
Travel	69	68	12,053	-	12,190	-	32	32	12,222	10,510
Other operating expenses	-	725	-	-	725	11,406	-	11,406	12,131	-
Depreciation	2,080	2,210	208	2,513	7,011	1,308	347	1,655	8,666	4,749
Printing and publication	2,193	151	-	-	2,344	4,024	-	4,024	6,368	4,536
Conferences, conventions and meetings	204	120	4,665	-	4,989	596	339	935	5,924	12,131
Dues and subscriptions	906	887	-	-	1,793	3,350	-	3,350	5,143	3,116
Telephone	3	-	-	-	3	5,031	-	5,031	5,034	7,755
Taxes and licenses	-	-	-	2,085	2,085	150	-	150	2,235	1,381
Legal fees	-	-	-	-	-	1,445	-	1,445	1,445	-
Grant expense	-	-	1,384	-	1,384	-	-	-	1,384	-
Postage and shipping	1,263	-	-	-	1,263	49	45	94	1,357	838
Training	210	-	-	-	210	-	-	-	210	5,050
Sponsorship expense	-	-	-	-	-	-	-	-	-	256,327
Total functional expenses	\$ 747,647	\$ 575,251	\$ 91,213	\$ 513,170	\$ 1,927,281	\$ 274,451	\$ 79,224	\$ 353,675	\$ 2,280,956	\$ 2,496,571
Percentage of total	33%	25%	4%	22%	84%	12%	4%	16%	100%	