

School of Arts and Culture at MHP

Financial Statements

June 30, 2020

(With Comparative Totals for 2019)



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INDEPENDENT AUDITOR'S REPORT

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 corporation) (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, 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, 2020, 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.

Change in Accounting Principle

As described in Note 4 to the financial statements, the School has adopted Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 13 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of COVID-19 cannot be reasonably estimated through the report date of December 7, 2020. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited School of Arts and Culture at MHP's 2019 financial statements, and our report dated December 20, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 7, 2020

School of Arts and Culture at MHP
Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,765,452	\$ 432,796
Accounts receivable, net	16,609	55,853
Grants receivable, current portion	286,610	473,027
Donated rent receivable, current portion (Note 5)	564,404	552,134
Prepaid expenses and deposits	33,784	29,187
Total current assets	2,666,859	1,542,997
Property and equipment, net	128,546	105,835
Other assets		
Grants receivable, net of current portion	122,000	130,000
Donated rent receivable, net of current portion (Note 5)	4,990,999	5,555,403
Total other assets	5,112,999	5,685,403
Total assets	\$ 7,908,404	\$ 7,334,235
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 209,766	\$ 220,910
Deferred revenue	38,527	104,506
Total current liabilities	248,293	325,416
Paycheck Protection Program forgivable loan	126,118	-
Total liabilities	374,411	325,416
Net assets		
Without donor restrictions		
Board designated operating reserve	42,445	22,445
Unrestricted	532,124	306,016
Total without donor restrictions	574,569	328,461
With donor restrictions	6,959,424	6,680,358
Total net assets	7,533,993	7,008,819
Total liabilities and net assets	\$ 7,908,404	\$ 7,334,235

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

School of Arts and Culture at MHP
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support and revenue				
Support				
Grants and contributions	\$ 1,056,877	\$ 1,804,829	\$ 2,861,706	\$ 1,578,788
Donated rent present value discount amortization (Note 5)	-	128,821	128,821	140,824
Total support	<u>1,056,877</u>	<u>1,933,650</u>	<u>2,990,527</u>	<u>1,719,612</u>
Revenue				
Rental income	411,142	-	411,142	707,473
Tuition and fees	93,913	-	93,913	136,534
Other revenue	8,832	-	8,832	15,469
Interest income	489	-	489	401
Total revenue	<u>514,376</u>	<u>-</u>	<u>514,376</u>	<u>859,877</u>
Total support and revenue	1,571,253	1,933,650	3,504,903	2,579,489
Net assets released from restriction	<u>1,654,584</u>	<u>(1,654,584)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,225,837</u>	<u>279,066</u>	<u>3,504,903</u>	<u>2,579,489</u>
Functional expenses				
Program services				
Arts education program	618,687	-	618,687	622,417
Events - community access and engagement and market rate rental program	795,115	-	795,115	832,248
Multicultural arts leadership institute	124,975	-	124,975	108,366
Facility	868,702	-	868,702	980,469
Mayferia / Special Initiatives	133,246	-	133,246	118,272
Total program services	<u>2,540,725</u>	<u>-</u>	<u>2,540,725</u>	<u>2,661,772</u>
Support services				
Management and general	286,705	-	286,705	337,026
Fundraising	152,299	-	152,299	128,729
Total support services	<u>439,004</u>	<u>-</u>	<u>439,004</u>	<u>465,755</u>
Total functional expenses	<u>2,979,729</u>	<u>-</u>	<u>2,979,729</u>	<u>3,127,527</u>
Change in net assets (Note 3)	246,108	279,066	525,174	(548,038)
Net assets, beginning of year	<u>328,461</u>	<u>6,680,358</u>	<u>7,008,819</u>	<u>7,556,857</u>
Net assets, end of year	<u>\$ 574,569</u>	<u>\$ 6,959,424</u>	<u>\$ 7,533,993</u>	<u>\$ 7,008,819</u>

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

School of Arts and Culture at MHP
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Arts education program	Events - community access and engagement and market rental program	Multicultural arts leadership institute	Facility	Mayferia / Special Initiatives	Total Program Services	Management and General	Fundraising	2020 Total	2019 Total
Personnel expenses										
Temporary contractors	\$ 92,741	\$ 260,097	\$ 12,039	\$ 149,313	\$ 2,748	\$ 516,938	\$ 4,989	\$ 350	\$ 522,277	\$ 912,050
Salaries and wages	160,700	164,593	58,796	146,681	87,422	618,192	70,038	55,934	744,164	551,034
Employee benefits	26,989	19,305	7,515	22,793	6,829	83,431	12,953	9,119	105,503	49,654
Payroll taxes	14,175	14,949	5,361	12,786	4,798	52,069	7,100	5,751	64,920	59,075
Total personnel expenses	<u>294,605</u>	<u>458,944</u>	<u>83,711</u>	<u>331,573</u>	<u>101,797</u>	<u>1,270,630</u>	<u>95,080</u>	<u>71,154</u>	<u>1,436,864</u>	<u>1,571,813</u>
Professional fees	18,529	54,856	4,760	45,833	28,685	152,663	86,425	54,602	293,690	206,143
Telephone and utilities	-	-	-	180,811	-	180,811	15,075	-	195,886	212,766
Repairs and maintenance	-	-	-	73,649	-	73,649	-	-	73,649	127,918
Event rental expense	-	61,211	-	-	-	61,211	-	-	61,211	121,660
Depreciation and amortization	16,656	9,264	1,221	12,202	-	39,343	1,220	139	40,702	18,163
Scholarship expense	-	38,997	-	-	-	38,997	-	-	38,997	300
Supplies, including in-kind	-	328	-	17,384	-	17,712	13,056	272	31,040	44,706
Program expenses	3,474	14,188	7,572	-	2,606	27,840	-	-	27,840	29,766
Grant expenses	-	-	-	-	-	-	2,216	23,299	25,515	13,409
Dues and subscriptions	4,400	2,987	71	3,101	158	10,717	10,142	-	20,859	10,409
Insurance	-	-	-	-	-	-	17,688	-	17,688	17,734
Miscellaneous expense	-	-	-	-	-	-	14,086	330	14,416	27,799
Travel and meetings	2,378	(1,530)	7,212	-	-	8,060	4,846	188	13,094	33,462
Building and equipment rental	-	886	-	-	-	886	6,437	-	7,323	10,524
Total	<u>340,042</u>	<u>640,131</u>	<u>104,547</u>	<u>664,553</u>	<u>133,246</u>	<u>1,882,519</u>	<u>266,271</u>	<u>149,984</u>	<u>2,298,774</u>	<u>2,446,572</u>
Donated rent	<u>278,645</u>	<u>154,984</u>	<u>20,428</u>	<u>204,149</u>	<u>-</u>	<u>658,206</u>	<u>20,434</u>	<u>2,315</u>	<u>680,955</u>	<u>680,955</u>
	<u>\$ 618,687</u>	<u>\$ 795,115</u>	<u>\$ 124,975</u>	<u>\$ 868,702</u>	<u>\$ 133,246</u>	<u>\$ 2,540,725</u>	<u>\$ 286,705</u>	<u>\$ 152,299</u>	<u>\$ 2,979,729</u>	<u>\$ 3,127,527</u>
Percentage of total	<u>21 %</u>	<u>27 %</u>	<u>4 %</u>	<u>29 %</u>	<u>4 %</u>	<u>85 %</u>	<u>10 %</u>	<u>5 %</u>	<u>100 %</u>	

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

School of Arts and Culture at MHP
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 525,174	\$ (548,038)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization expense	40,702	18,163
Donated rent expense	680,955	680,955
Donated rent present value discount amortization	(128,821)	(140,824)
Contributions received for long-term purposes	(33,754)	(81,261)
Changes in operating assets and liabilities		
Accounts receivable	39,244	(24,746)
Grants receivable	194,417	26,977
Prepaid expenses and deposits	(4,597)	(839)
Accounts payable and accrued liabilities	(11,144)	27,474
Agency fund scholarships payable	-	(22,445)
Deferred revenue	(65,979)	13,250
Net cash provided by (used in) operating activities	<u>1,236,197</u>	<u>(51,334)</u>
Cash flows from investing activities		
Purchase of property and equipment	(63,413)	(57,185)
Net cash used in investing activities	<u>(63,413)</u>	<u>(57,185)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program forgivable loan	126,118	-
Contributions received for long-term purposes	33,754	81,261
Net cash provided by financing activities	<u>159,872</u>	<u>81,261</u>
Net increase (decrease) in cash	1,332,656	(27,258)
Cash and cash equivalents, beginning of year	<u>432,796</u>	<u>460,054</u>
Cash and cash equivalents, end of year	<u>\$ 1,765,452</u>	<u>\$ 432,796</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, 2020
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS

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 "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. The School's mission is to catalyze creativity and empower community. Through its dynamic mix of offerings and events, the School has become a hub of community and arts activities, engaging over 70,000 visitors annually, and has established itself as the place in East San Jose to engage in arts and cultural activities. In a time when racism and xenophobia are raining down from the highest levels of government, space for cultural expression in marginalized communities is vital to their health. As such, the School serves local residents by providing opportunities for creative engagement, expression, and growth through arts education, creative placemaking, events that speak to their heritage, and leadership building, as seen through its core programs. The School, with a staff of about 25, leverages a \$35 million cultural facility to deliver unique classes, leadership development, community events, and programs that are inclusive of all cultures, while rooted in Mexican Arts. In January 2014, the School 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. The School believes that the arts are powerful vehicles for human development and social transformation - by creating nurturing communities for young people, especially those at risk. The School believes, as research indicates, that creative experiences in the arts offer students the opportunity to "envision and set goals, determine a method to reach a goal, and try it out, identify alternatives, evaluate, revise, solve problems, imagine, work collaboratively, and apply self-discipline" (The California State Board of Education – Visual and Performing Arts).

The goals for the Arts Education Program are to engage youth, ages 4 to 18, in positive, culturally relevant, safe and empowering learning experiences that will inspire and strengthen the youth and families of San Jose to be agents of positive change. To reach these goals, the School seeks to achieve the following objectives: 1) Offer East San Jose students access to arts education; 2) Activate a community asset – the Mexican Heritage Plaza, where the School is located; and 3) Offer quality student learning experiences in the arts. The Arts Education Program provides arts and culture experiences for students ages 4-18, helping them to achieve developmental and educational milestones through quarterly classes in dance and music, rooted in Mexican and Mexican American culture. In 2017, the School adopted a developmental pathway approach in music to offer students sequential instruction that develops solid foundational skills, instrumental technique, music notation, and overall musicianship. In the year ended June 30, 2020, the School served over 900 students through the program.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

Events - Community Access and Engagement

The Community Engagement Program provides local artists and arts and community agencies access to the Mexican Heritage Plaza; training and technical assistance on the use of the space; and access to audience networks. Activating and curating the six-acre, \$35 million, city-owned facility as a programmable arts and cultural destination and community hub, the School provides East San Jose with a safe, active, family venue for diverse arts activities that speak to its unique cultural heritage. In the year ended June 30, 2020, the Community Engagement Program worked with 60 community partners to present relevant, multicultural programming that celebrated the local community's diversity and subsidized the cost of 90 productions.

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 East San Jose.
- 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 Jose.
- 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.

Events - Market Rate 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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

Events - Market Rate Rental Program (continued)

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 Rate Rental Program generates revenue that then directly supports the school program. In addition, 98% of all events that take place at the Mexican Heritage Plaza through the Market Rate Rental Program are rooted in the community.

Multicultural Arts Leadership Institute (MALI)

The Multicultural Arts Leadership Institute ("MALI") is a professional development opportunity for leaders of color in the arts, cultural, and entertainment sectors. Through MALI's year-long training program, the School develops local multicultural arts practitioners by giving them the technical skills, philosophical underpinnings, and networking opportunities necessary to grow and sustain their individual work, their organizations, and the arts sector in Silicon Valley. Since 2008, MALI has worked with 127 leaders of color in Silicon Valley, of which 24 hold director-level positions, 22 are small business owners, 8 are artist laureates, and 5 work in government. In addition, since its founding, the School has invested over \$1 million in MALI members and has provided over 10,000 hours of direct instruction, mentorship, and networking. Without such investments, these artists and arts groups would not have been able to fully participate in the creative economy.

MALI is based on the principle that when leaders in the arts reflect the ethnic makeup of their local population, the agencies they represent are more culturally responsive to their community's needs. To prioritize and clarify diversity in the arts leadership field, MALI builds intentional networks among arts leaders of color and develops in them cultural leadership skills that overcome past tokenism. As such, MALI: 1) Identifies future and emerging multicultural arts leaders; 2) Develops and delivers a training program that builds upon and enhances their skills and knowledge so they can address challenges to success and stabilize or grow their agencies, and; 3) Equips them to successfully participate in community forums, initiatives, and task forces to address specific community issues and advocate for a strong, healthy multicultural arts community.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

Facility

The School 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. MALI); and community events through its Community Access and Engagement and Market Rate Rental programs. In this way, the facility is activated and transformed into a vibrant hub of community activity.

Mayferia / Special Initiatives

During the year ended June 30, 2017, the School of Arts and Culture at MHP launched a special project initiative called Mayferia. This project celebrates the talent, history, and beauty of the Mayfair community. The School will continue to leverage its connections and role in the community as an anchor agency and convener to recruit community members to participate in the process of initiating, developing, planning and implementing the elements of the project. Mayferia activities bring these rich, multi-faceted cultural activities to an area characterized by gang violence, poverty, blight, and a lack of resources. Also, with a predominantly Latino population, Mayferia helps residents to develop and enhance a sense of belonging and pride in their heritage and neighborhood, gaining a broader perspective of the challenges faced by the Mayfair neighborhood and a new perspective on the possibilities for change. At the end of the year ended June 30, 2019, the School sunset this project initiative and integrated certain community activations piloted through Mayferia, such as the Cafecito series, into its Community Engagement Program.

3. CHANGE IN NET ASSETS

During the year ended June 30, 2020, the School experienced an increase in net assets of \$525,174. During the year ended June 30, 2019, the School experienced a decrease of \$548,038. A significant amount of the decrease in net assets for the year ended June 30, 2019 can be attributed to "Donated rent" expense.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

3. CHANGE IN NET ASSETS (continued)

Changes in net assets for the fiscal year ended June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets	\$ 246,108	\$ 279,066	\$ 525,174
Add back:			
Donated rent expense	680,955	-	680,955
Less:			
Release from time restriction (Note 8)	(680,955)	680,955	-
Donated rent present value discount amortization	-	(128,821)	(128,821)
 Change in net assets, excluding donated rent expense	 \$ 246,108	 \$ 831,200	 \$ 1,077,308

Changes in net assets for the fiscal year ended June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets	\$ (18,406)	\$ (529,632)	\$ (548,038)
Add back:			
Donated rent expense	680,955	-	680,955
Less:			
Release from time restriction (Note 8)	(680,955)	680,955	-
Donated rent present value discount amortization	-	(140,824)	(140,824)
 Change in net assets, excluding donated rent expense	 \$ (18,406)	 \$ 10,499	 \$ (7,907)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement position

The financial statements of the School have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which involves the application of accrual accounting; consequently support and revenue is recognized when earned, and expenses and are recorded when the obligation is incurred. In accordance with GAAP, the School is required to report information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement position (continued)

Net assets without donor restrictions - The portion of the net assets that the Board of Directors has discretionary control in carrying out the operations of the School. Under this category, the School maintains an operating fund plus any net assets designated by the Board for specific purposes.

Net assets with donor restrictions - The portion of the net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as endowments. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The School adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on the School's financial position, result of operations, or cash flows. The School has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

Summarized 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 GAAP. Accordingly, such information should be read in conjunction with the School's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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 School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts and grants receivable

The School considers all accounts and grants 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. 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 3 to 14 years. Depreciation is charged to the activity benefiting from the use of the property and equipment.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2020 and 2019 and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2020 and 2019 was \$43,767 and \$36,767, respectively.

Revenue recognition

The School 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 without donor restrictions or with donor restrictions depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met, the amount is shown as a reclassification of net assets with donor restriction to net assets without donor restriction.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

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 School would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Functional expense allocations

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 statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support 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 financial statements. In addition, the School 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.

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 School in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The School's federal returns for the years ended June 30, 2017 and beyond are subject to examination by federal taxing authorities, generally for 3 years after they are filed. The School's state returns for the years ended June 30, 2016 and beyond are subject to examination by state taxing authorities, generally for 4 years after they are filed.

Use of estimates

The preparation of financial statements in conformity with GAAP 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

The School's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$53,167 and \$70,024 respectively.

Subsequent events

The School has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the financial statements. The School did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 7, 2020.

5. DONATED RENT RECEIVABLE

In January 2014, 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 School 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 School recognized the benefit of the fair value of the rent received through this agreement as donated rent receivable and net assets with donor restrictions. The School has established the fair market value of the rent under the agreement at \$680,955 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 is expected to be amortized as follows:

<u>Year ending June 30,</u>			
2021	\$	564,404	
2022		576,947	
2023		589,769	
2024		602,875	
2025		616,273	
Thereafter		<u>2,605,135</u>	
		5,555,403	
Current portion		<u>(564,404)</u>	
	\$	<u>4,990,999</u>	

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6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Theater equipment	\$ 170,749	\$ 126,091
Leasehold improvements	67,130	48,375
Office equipment	8,586	8,586
	246,465	183,052
Accumulated depreciation and amortization	(117,919)	(77,217)
	\$ 128,546	\$ 105,835

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$40,702 and \$18,163, 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 agreement, the City will make quarterly operations payments to the School ("O&M subsidy"), which will be structured to match earned and contributed income raised by the School. 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.

In addition, an annual appropriation of \$50,000 for capital repairs and capital replacements is earmarked for the Plaza for years one to five and \$100,000 in years six through termination. Included in the \$100,000 is an additional \$25,000 contribution from the City and a \$25,000 reallocation from the reduction in the O&M subsidy starting from year six .

Contributions from the City during the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
For operations	\$ 425,000	\$ 450,000
For capital repairs and replacements	33,754	131,261
	\$ 458,754	\$ 581,261

The year ended June 30, 2020 represents year six of the Mexican Heritage Plaza Operator and Use agreement. Other terms of the match remain unchanged from the previous agreement.

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8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Purpose restrictions		
Emerging Arts Leaders of Color Fellowship Program	\$ 1,032,791	\$ -
Other programs	150,200	190,161
K-12 education and summer camps	50,000	122,435
Fiscal sponsorship	36,030	23,558
Multicultural Arts Leadership Institute	<u>-</u>	<u>116,667</u>
	1,269,021	452,821
Time restrictions		
Donated rent for future periods	5,555,403	6,107,537
Time-restricted pledges - General operating support	<u>135,000</u>	<u>120,000</u>
	<u>\$ 6,959,424</u>	<u>\$ 6,680,358</u>

Net assets released from donor restrictions during the year were as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions		
Emerging Arts Leaders of Color Fellowship Program	\$ 132,209	\$ -
Other programs	396,175	68,500
K-12 education and summer camps	195,635	204,214
Multicultural Arts Leadership Institute	116,667	101,667
Change of donor restriction	50,000	-
Fiscal sponsorship	22,943	159,435
Mayferia	<u>-</u>	<u>85,000</u>
	913,629	618,816
Time restrictions		
Donated rent for future periods	680,955	680,955
Time-restricted pledges - General operating support	<u>60,000</u>	<u>60,000</u>
	<u>\$ 1,654,584</u>	<u>\$ 1,359,771</u>

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9. CONFLICT OF INTEREST POLICY

Included among the School's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the School in the development of policies and programs and in the evaluation of business transactions. The School 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. COMMITMENTS AND 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 School 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 School 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, 2020 and 2019, the School received 35% and 36% 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 School 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.

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the School's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As part of this policy, the School holds in its cash and cash equivalents accounts a board designated operating reserve balance of \$42,445 that is available to pay for operating needs.

Accounts receivable consist of amounts expected to be received within one year from June 30, 2020. These receivables will be available to support general operations.

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12. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The current portion of grants receivable consists of amounts expected to be received within one year from June 30, 2020. The current portion of grants receivable without donor restrictions will be available to support general operations of the School.

The following is a quantitative disclosure which describes assets and liquid resources that are available as of June 30, 2020 to fund general expenditures and other obligations within one year:

Financial assets	
Cash and cash equivalents	\$ 1,765,452
Accounts receivable, net	16,609
Grants receivable	<u>408,610</u>
	2,190,671
Less: amounts unavailable for general expenditure within one year due to:	
Restricted for a specified purpose	<u>(1,269,021)</u>
	<u><u>\$ 921,650</u></u>

13. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations.

COVID-19 has adversely affect the economies and financial markets of many countries, namely the United States, which has impacted the School, the creative sector, and local community. On March 13, 2020, the School made a difficult decision to suspend its onsite after-school Arts Education Program, which serves 1,000 local families. It also canceled all private and public events. For a cultural institution charged with the activation of a local gem, the decision to limit access to La Plaza was not easy and the ramifications of the decision were significant. By prioritizing the safety of the community, La Plaza lost nearly \$300,000 in revenue, funds that could have gone to support scholarships for students, mentorship for emerging leaders of color, and access to a safe cultural hub for families in East San Jose.

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13. RISKS AND UNCERTAINTIES (continued)

In addition, the pandemic pushed the School to adapt services to help meet community needs. Soon after the closure of La Plaza to the public, leadership guided staff and board members to transform the agency into a community hub for essential resources and information. In June 2020, La Plaza was transformed into a convenient, safe location for East San Jose families to access the food and supplies they need during this crisis. For this effort, the School partnered with Second Harvest of Silicon Valley and has committed to a year-long partnership to distribute grocery boxes on the 1st and 3rd Monday of the month, an effort that will feed 48,000 community members. In August, the School partnered with Gardner Health Services and the County of Santa Clara to provide no cost COVID-19 testing at La Plaza. Testing takes place on Wednesdays from 1 PM to 7 PM and will continue every Wednesday through February 24, 2021.

It should be noted that the services offered by the School in response to the pandemic are considered temporary. That is, the School anticipates its regular programs and activities will resume when the community's recovery from COVID-19 is underway. While the School is continuing to monitor and assess the impact of the COVID-19 outbreak, it cannot anticipate all of the ways in which COVID-19 could adversely impact its operations and funding, therefore the ultimate financial impact and duration cannot be reasonably estimated at this time.

14. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On April 14, 2020, the School received a loan from a qualified lender under the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES") Act, for an aggregate principal amount of \$126,118 ("PPP Loan"). The PPP Loan bears interest at a fixed rate of 1% per annum, with the first six months of interest deferred, has a term of two years and is unsecured and guaranteed by the SBA. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

On June 5, 2020, the Paycheck Protection Program Flexibility Act ("PPPPFA") was signed into law, and was followed by revised forgiveness applications on June 16, 2020 and revised interim final rules ("IFRS") on June 22, 2020. The enactment of the PPPFA and subsequent releases of the related IFRS and forgiveness applications provided several structural changes to the program aimed to provide businesses with added flexibility to utilize the funds and to be able to obtain forgiveness. The Primary modifications include: reducing from 75% to 60% the percent of a borrower's loan proceeds which must be used for payroll costs; increase from 8 weeks to 24 weeks the covered period, which is the period eligible costs can qualify for forgiveness; extended the deferral period for principal and interest on the loan to the date SBA remits the loan forgiveness amount to the lender or ten months after the loan forgiveness covered period if the borrower has not applied for forgiveness.

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14. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN (continued)

The School accounted for the PPP proceeds received under the accounting guidance for debt and believes that it will likely qualify for full forgiveness and will submit its forgiveness application shortly after the end of its covered period, but there is uncertainty around the standards and operation of the PPP and no assurance is provided that the School will obtain forgiveness in whole or in part.