

School of Arts and Culture at MHP

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20



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, 2019, and the related statements of activities, functional expenses, and cash flows for the years 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, 2019, 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 ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited School of Arts and Culture at MHP's 2018 financial statements, and our report dated November 26, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

December 20, 2019

School of Arts and Culture at MHP
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 432,796	\$ 437,609
Cash - Agency fund for scholarships	-	22,445
Accounts receivable, net	55,853	31,107
Grants receivable, current portion	473,027	443,337
Donated rent receivable, current portion (Note 5)	552,134	540,131
Prepaid expenses and deposits	29,187	28,355
Total current assets	1,542,997	1,502,984
Property and equipment, net	105,835	66,810
Other assets		
Grants receivable, net of current portion	130,000	186,667
Donated rent receivable, net of current portion (Note 5)	5,555,403	6,107,533
Total other assets	5,685,403	6,294,200
Total assets	\$ 7,334,235	\$ 7,863,994
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 204,327	\$ 193,436
Agency fund for scholarships payable	-	22,445
Deferred revenue	104,506	91,256
Accrued salaries and wages	16,583	-
Total current liabilities	325,416	307,137
Net assets		
Without donor restrictions		
Board designated operating reserve	22,445	-
Unrestricted	306,016	346,867
Total without donor restrictions	328,461	346,867
With donor restrictions	6,680,358	7,209,990
Total net assets	7,008,819	7,556,857
Total liabilities and net assets	\$ 7,334,235	\$ 7,863,994

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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue				
Support				
Grants and contributions	\$ 889,473	\$ 689,315	\$ 1,578,788	\$ 1,858,761
Donated rent present value discount amortization (Note 5)	-	140,824	140,824	152,566
Total support	<u>889,473</u>	<u>830,139</u>	<u>1,719,612</u>	<u>2,011,327</u>
Revenue				
Rental income	707,473	-	707,473	703,090
Tuition and fees	136,534	-	136,534	98,679
Other revenue	15,469	-	15,469	16,883
Interest income	401	-	401	397
Net assets released from restriction	<u>1,359,771</u>	<u>(1,359,771)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,219,648</u>	<u>(1,359,771)</u>	<u>859,877</u>	<u>819,049</u>
Total support and revenue	<u>3,109,121</u>	<u>(529,632)</u>	<u>2,579,489</u>	<u>2,830,376</u>
Functional expenses				
Program services				
Arts education program	622,417	-	622,417	717,598
Events - community access and engagement and market rate rental program	832,248	-	832,248	855,442
Multicultural arts leadership institute	108,366	-	108,366	104,139
Facility	980,469	-	980,469	679,124
Mayferia	<u>118,272</u>	<u>-</u>	<u>118,272</u>	<u>272,998</u>
Total program services	<u>2,661,772</u>	<u>-</u>	<u>2,661,772</u>	<u>2,629,301</u>
Support services				
Management and general	337,026	-	337,026	310,011
Fundraising	<u>128,729</u>	<u>-</u>	<u>128,729</u>	<u>130,390</u>
Total support services	<u>465,755</u>	<u>-</u>	<u>465,755</u>	<u>440,401</u>
Total functional expenses	<u>3,127,527</u>	<u>-</u>	<u>3,127,527</u>	<u>3,069,702</u>
Change in net assets (Note 3)	(18,406)	(529,632)	(548,038)	(239,326)
Net assets, beginning of year	<u>346,867</u>	<u>7,209,990</u>	<u>7,556,857</u>	<u>7,796,183</u>
Net assets, end of year	<u>\$ 328,461</u>	<u>\$ 6,680,358</u>	<u>\$ 7,008,819</u>	<u>\$ 7,556,857</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, 2019
(With Comparative Totals for 2018)

	Arts education program	Events - community access and engagement and market rental program	Multicultural arts leadership institute	Facility	Mayferia	Total Program Services	Management and General	Fundraising	2019 Total	2018 Total
Personnel expenses										
Temporary contractors	\$ 172,955	\$ 371,492	\$ 14,094	\$ 246,719	\$ 26,163	\$ 831,423	\$ 25,457	\$ 55,170	\$ 912,050	\$ 822,375
Salaries and wages	104,921	114,127	41,919	132,543	45,067	438,577	80,360	32,097	551,034	525,797
Payroll taxes	11,173	12,014	4,538	13,957	5,147	46,829	8,795	3,451	59,075	44,286
Employee benefits	11,768	6,412	4,321	12,861	5,191	40,553	7,446	1,655	49,654	52,760
Total personnel expenses	<u>300,817</u>	<u>504,045</u>	<u>64,872</u>	<u>406,080</u>	<u>81,568</u>	<u>1,357,382</u>	<u>122,058</u>	<u>92,373</u>	<u>1,571,813</u>	<u>1,445,218</u>
Telephone and utilities	520	445	-	198,213	-	199,178	13,588	-	212,766	225,531
Professional fees	19,446	25,012	4,963	-	22,487	71,908	114,921	19,314	206,143	182,198
Repairs and maintenance	-	-	-	127,918	-	127,918	-	-	127,918	173,734
Event rental expense	50	115,801	-	-	5,687	121,538	122	-	121,660	195,838
Supplies, including in-kind	412	601	-	33,375	-	34,388	9,963	355	44,706	75,849
Travel and meetings	3,220	10,904	12,203	-	6	26,333	5,325	1,804	33,462	25,308
Program expenses	7,868	12,634	3,805	1,672	3,262	29,241	-	525	29,766	1,239
Miscellaneous expense	2,286	1,700	-	2,021	1,681	7,688	20,045	66	27,799	26,873
Depreciation and amortization	7,432	4,134	545	5,445	-	17,556	545	62	18,163	15,332
Insurance	-	-	-	-	-	-	17,734	-	17,734	16,063
Grant expenses	-	-	1,500	-	-	1,500	-	11,909	13,409	-
Building and equipment rental	-	-	-	1,119	2,328	3,447	7,077	-	10,524	-
Dues and subscriptions	1,721	1,688	50	477	1,253	5,189	5,220	-	10,409	5,564
Scholarship expense	-	300	-	-	-	300	-	-	300	-
Total	<u>343,772</u>	<u>677,264</u>	<u>87,938</u>	<u>776,320</u>	<u>118,272</u>	<u>2,003,566</u>	<u>316,598</u>	<u>126,408</u>	<u>2,446,572</u>	<u>2,388,747</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>20,428</u>	<u>2,321</u>	<u>680,955</u>	<u>680,955</u>
	<u>\$ 622,417</u>	<u>\$ 832,248</u>	<u>\$ 108,366</u>	<u>\$ 980,469</u>	<u>\$ 118,272</u>	<u>\$ 2,661,772</u>	<u>\$ 337,026</u>	<u>\$ 128,729</u>	<u>\$ 3,127,527</u>	<u>\$ 3,069,702</u>
Percentage of total	<u>20 %</u>	<u>27 %</u>	<u>3 %</u>	<u>31 %</u>	<u>4 %</u>	<u>85 %</u>	<u>11 %</u>	<u>4 %</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (548,038)	\$ (239,326)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	18,153	15,332
Donated rent expense	680,955	680,955
Donated rent present value discount amortization	(140,821)	(152,566)
Changes in operating assets and liabilities		
Accounts receivable	(24,746)	22,752
Grants receivable	26,977	(257,921)
Pledges receivable	-	300
Prepaid expenses and deposits	(832)	(739)
Accounts payable and accrued liabilities	27,474	(14,063)
Agency fund scholarships payable	(22,445)	-
Deferred revenue	13,250	(32,599)
Net cash provided by operating activities	<u>29,927</u>	<u>22,125</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(57,185)</u>	<u>(10,528)</u>
Net cash used in investing activities	<u>(57,185)</u>	<u>(10,528)</u>
Net increase (decrease) in cash	(27,258)	11,597
Cash, cash equivalents and restricted cash, beginning of year	<u>460,054</u>	<u>448,457</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 432,796</u>	<u>\$ 460,054</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 432,796	\$ 437,609
Cash - Agency fund for scholarships	<u>-</u>	<u>22,445</u>
	<u>\$ 432,796</u>	<u>\$ 460,054</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, 2019
(With Comparative Totals for 2018)

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 20, 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 children, 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 0-18, 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, 2019, the School served over 900 students through the program.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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, \$35million , 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, 2019, 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 156 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 the Eastside of 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, 2019
(With Comparative Totals for 2018)

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, organizations, and arts sector in Silicon Valley. Since 2008, MALI has worked with 119 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 have not 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, 2019
(With Comparative Totals for 2018)

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. the Multicultural Arts Leadership Institute); and community events through its Community Engagement and Market Rate programs. In this way, the long underutilized facility is activated and transformed into a vibrant hub of community activity.

Mayferia

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, 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 years ended June 30, 2019 and 2018, the School experienced a decrease in net assets of \$548,038 and \$239,326, respectively. A significant amount of the decrease can be attributed to "Donated rent" expense.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

3. CHANGE IN NET ASSETS (continued)

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	680,949	-	680,949
Less:			
Release from time restriction (Note 8)	(680,949)	680,949	-
Donated rent present value discount amortization	-	(140,824)	(140,824)
 Change in net assets, excluding donated rent expense	 <u>\$ (18,406)</u>	 <u>\$ 10,493</u>	 <u>\$ (7,913)</u>

Changes in net assets for the fiscal year ended June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets	\$ (17,724)	\$ (221,602)	\$ (239,326)
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	-	(152,566)	(152,566)
 Change in net assets, excluding donated rent expense	 <u>\$ (17,724)</u>	 <u>\$ 306,787</u>	 <u>\$ 289,063</u>

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, 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 accounting principles generally accepted in the United States of America, the School is required to report information regarding its financial position and activities according to 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, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement position (continued)

Net assets without donor restrictions - assets over which 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 - assets which are subject to donor restrictions and for which the applicable restriction was not met as of the end of the current reporting period. consist of donor restricted contributions. 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 restrictions. The School does not imply a time restriction on gifts of long-lived assets. Net assets with donor restrictions also include those assets which are subject to non-expiring donor restrictions, such as endowments.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.

The School adopted the provisions of ASU 2016-14 in 2018 and applied the amendments on a retrospective basis for all years presented with the option to omit the disclosure about liquidity and availability of resources for the prior year comparative period.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's audited financial statements for the year ended June 30, 2018, 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.

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 School. Unobservable inputs reflect the School'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, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (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 School'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 School 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 School 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, 2019 and 2018. The accrued vacation balance as of June 30, 2019 and 2018 was \$36,767 and \$25,756, respectively.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Agency fund for scholarships

The School entered into an agreement in August 2015 with Mi Pueblo, LLC (Mi Pueblo). Under this agreement, Mi Pueblo appointed the School as an agent. This agreement was established to provide scholarship funds to college bound, graduating high school seniors. These funds are under the control of Mi Pueblo and cannot be awarded to a student without the approval of Mi Pueblo. No scholarships were awarded during the fiscal years ended June 30, 2019 and 2018. The cash and related liability for the agency fund for scholarships totaled \$0 and \$22,445 as of June 30, 2019 and 2018, respectively. Effective during the year ended June 30, 2018 the fiscal agency relationship with Mi Pueblo ended.

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 restrictions.

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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

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.

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

Advertising costs

The School's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended June 30, 2019 and 2018 were \$69,423 and \$72,487 respectively.

Subsequent events

The School has evaluated events and transactions subsequent to June 30, 2019 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, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 20, 2019.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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 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 received as follows:

<u>Year ending June 30,</u>		
2020	\$	552,134
2021		564,404
2022		576,947
2023		589,769
2024		602,875
Thereafter		<u>3,221,408</u>
		6,107,537
Current portion		<u>(552,134)</u>
		<u><u>\$ 5,555,403</u></u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Theater equipment	\$ 126,091	\$ 68,906
Leasehold improvements	48,375	48,375
Office equipment	<u>8,586</u>	<u>8,586</u>
	183,052	125,867
Accumulated depreciation and amortization	<u>(77,217)</u>	<u>(59,057)</u>
	<u><u>\$ 105,835</u></u>	<u><u>\$ 66,810</u></u>

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

6. PROPERTY AND EQUIPMENT (continued)

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$18,153 and \$15,332, 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 quarterly operations payments to the School 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. The year ending June 30, 2020 represents year six of the Mexican Heritage Plaza operating and use agreement. Other terms of the match remain unchanged from the previous agreement.

Under the 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. The year ending June 30, 2020 represents year six of the Mexican Heritage Plaza operating and use agreement.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Purpose restrictions		
Other programs	\$ 310,161	\$ 189,002
K-12 education and summer camps	122,435	54,620
Multicultural Arts Leadership Institute	116,667	168,334
Fiscal sponsorship	23,558	65,371
Mayferia	-	85,000
	572,821	562,327
Time restrictions		
Donated rent for future periods	6,107,537	6,647,663
	\$ 6,680,358	\$ 7,209,990

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

8. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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

	2019	2018
Purpose restrictions		
K-12 education and summer camps	\$ 204,214	\$ 159,080
Fiscal sponsorship	159,435	58,379
Other programs	128,500	108,044
Multicultural Arts Leadership Institute	101,667	35,000
Mayferia	85,000	244,167
	678,816	604,670
 Time restrictions		
Donated rent for future periods	680,955	680,955
	\$ 1,359,771	\$ 1,285,625

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 the 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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

11. CONCENTRATIONS

During the years ended June 30, 2019 and 2018, the School received 36% and 34% 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 \$22,445 that is available to pay for operating needs.

Accounts receivable consist of amounts expected to be received within one year from June 30, 2019. These receivables will be available to support general operations.

The current portion of grants receivable consists of amounts expected to be received within one year from June 30, 2019. 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, 2019 to fund general expenditures and other obligations within one year:

Financial assets	
Cash and cash equivalents	\$ 432,796
Accounts receivable, net	55,853
Grants receivable	<u>603,027</u>
	1,091,676
Less: amounts unavailable for general expenditure one year due to:	
Restricted for a specified purpose	<u>(572,821)</u>
	<u><u>\$ 518,855</u></u>