

School of Arts and Culture at MHP

Financial Statements

June 30, 2021

(With Comparative Totals for 2020)



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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, 2021, 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, 2021, 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 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In addition, the School has elected to change its method of accounting with respect to the Paycheck Protection Program from the debt model to the conditional grant model. Our opinion is not modified with respect to those matters.

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 February 4, 2022. 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 2020 financial statements, and our report dated December 7, 2020 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

February 4, 2022

School of Arts and Culture at MHP
Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,863,806	\$ 1,765,452
Accounts receivable	250,805	16,609
Grants receivable, current portion	360,525	286,610
Donated rent receivable, current portion (Note 5)	576,947	564,404
Prepaid expenses and deposits	32,466	33,784
Total current assets	4,084,549	2,666,859
Property and equipment, net	92,947	128,546
Other assets		
Grants receivable, net of current portion	130,000	122,000
Donated rent receivable, net of current portion (Note 5)	4,414,052	4,990,999
Total other assets	4,544,052	5,112,999
Total assets	\$ 8,721,548	\$ 7,908,404
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 241,828	\$ 209,766
Deferred revenue	50,797	38,527
Refundable advance - Paycheck Protection Program	-	126,118
Total current liabilities	292,625	374,411
Net assets		
Without donor restrictions		
Undesignated	1,606,554	532,124
Board designated operating reserve	42,445	42,445
Total without donor restrictions	1,648,999	574,569
With donor restrictions	6,779,924	6,959,424
Total net assets	8,428,923	7,533,993
Total liabilities and net assets	\$ 8,721,548	\$ 7,908,404

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, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Support and revenue				
Support				
Grants and contributions	\$ 1,378,680	\$ 2,756,071	\$ 4,134,751	\$ 2,861,706
Government grants - Paycheck Protection Program	126,118	-	126,118	-
Donated rent present value discount amortization (Note 5)	-	116,550	116,550	128,821
Total support	<u>1,504,798</u>	<u>2,872,621</u>	<u>4,377,419</u>	<u>2,990,527</u>
Revenue				
Rental income	585,001	-	585,001	411,142
Tuition and fees	(135)	-	(135)	93,913
Other revenue	20,797	-	20,797	8,832
Interest income	1,028	-	1,028	489
Total revenue	<u>606,691</u>	<u>-</u>	<u>606,691</u>	<u>514,376</u>
Total support and revenue	2,111,489	2,872,621	4,984,110	3,504,903
Net assets released from restriction	<u>3,052,121</u>	<u>(3,052,121)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,163,610</u>	<u>(179,500)</u>	<u>4,984,110</u>	<u>3,504,903</u>
Functional expenses				
Program services				
Arts education program	8,720	-	8,720	618,687
Events - community access and engagement and market rate rental program	489,341	-	489,341	795,115
Multicultural arts leadership institute	78,780	-	78,780	124,975
Facility	574,188	-	574,188	868,702
Special initiatives	2,423,261	-	2,423,261	133,246
Total program services	<u>3,574,290</u>	<u>-</u>	<u>3,574,290</u>	<u>2,540,725</u>
Support services				
Management and general	335,755	-	335,755	286,705
Fundraising	179,135	-	179,135	152,299
Total support services	<u>514,890</u>	<u>-</u>	<u>514,890</u>	<u>439,004</u>
Total functional expenses	<u>4,089,180</u>	<u>-</u>	<u>4,089,180</u>	<u>2,979,729</u>
Change in net assets (Note 3)	1,074,430	(179,500)	894,930	525,174
Net assets, beginning of year	<u>574,569</u>	<u>6,959,424</u>	<u>7,533,993</u>	<u>7,008,819</u>
Net assets, end of year	<u>\$ 1,648,999</u>	<u>\$ 6,779,924</u>	<u>\$ 8,428,923</u>	<u>\$ 7,533,993</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, 2021
(With Comparative Totals for 2020)

	Arts education program	Events - community access and engagement and market rental program	Multicultural arts leadership institute	Facility	Special initiatives	Total program services	Management and general	Fundraising	2021 Total	2020 Total
Personnel expenses										
Temporary contractors	\$ -	\$ 108,013	\$ 11,500	\$ 75,545	\$ 842,839	\$ 1,037,897	\$ 1,494	\$ 16,758	\$ 1,056,149	\$ 522,277
Salaries and wages	-	111,330	36,994	112,326	637,419	898,069	78,409	67,400	1,043,878	744,164
Employee benefits	-	10,936	2,447	14,889	56,714	84,986	(363)	5,616	90,239	105,503
Payroll taxes	-	8,560	2,879	9,023	55,204	75,666	6,600	5,188	87,454	64,920
Total personnel expenses	-	238,839	53,820	211,783	1,592,176	2,096,618	86,140	94,962	2,277,720	1,436,864
Professional services	3,375	40,576	7,191	-	190,887	242,029	134,448	54,700	431,177	293,690
Telephone and utilities	-	-	-	163,723	-	163,723	12,749	-	176,472	195,886
Program expenses	3,640	19,892	208	-	147,267	171,007	700	-	171,707	27,840
Repairs and maintenance	-	-	-	77,560	-	77,560	-	-	77,560	73,649
Event rental expense	-	60,364	-	-	14,695	75,059	-	-	75,059	61,211
Depreciation and amortization	-	11,161	1,471	34,942	-	47,574	1,471	167	49,212	40,702
Supplies, including in-kind	-	1,893	-	18,079	1,473	21,445	21,832	795	44,072	31,040
Scholarship expense	-	43,674	-	-	-	43,674	-	-	43,674	38,997
Insurance	-	-	-	-	-	-	19,746	-	19,746	17,688
Dues and subscriptions	1,705	1,058	-	4,205	761	7,729	11,466	-	19,195	20,859
Grant expenses	-	-	-	-	-	-	6,198	-	6,198	25,515
Travel and meetings	-	480	-	580	-	1,060	4,984	121	6,165	13,094
Miscellaneous	-	-	-	-	-	-	3,212	-	3,212	14,416
Building and equipment rental	-	-	-	-	-	-	7,056	-	7,056	7,323
Total	8,720	417,937	62,690	510,872	1,947,259	2,947,478	310,002	150,745	3,408,225	2,298,774
Donated rent	-	71,404	16,090	63,316	476,002	626,812	25,753	28,390	680,955	680,955
	<u>\$ 8,720</u>	<u>\$ 489,341</u>	<u>\$ 78,780</u>	<u>\$ 574,188</u>	<u>\$ 2,423,261</u>	<u>\$ 3,574,290</u>	<u>\$ 335,755</u>	<u>\$ 179,135</u>	<u>\$ 4,089,180</u>	<u>\$ 2,979,729</u>
Percentage of total	<u>1 %</u>	<u>12 %</u>	<u>2 %</u>	<u>14 %</u>	<u>59 %</u>	<u>88 %</u>	<u>8 %</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, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 894,930	\$ 525,174
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	49,212	40,702
Donated rent expense	680,955	680,955
Donated rent present value discount amortization	(116,550)	(128,821)
Contributions received for long-term purposes	-	(33,754)
Changes in operating assets and liabilities		
Accounts receivable	(234,196)	39,244
Grants receivable	(81,915)	194,417
Prepaid expenses and deposits	1,317	(4,597)
Accounts payable and accrued liabilities	32,062	(11,144)
Deferred revenue	12,270	(65,979)
Refundable advance - Paycheck Protection Program	(126,118)	126,118
Net cash provided by operating activities	<u>1,111,967</u>	<u>1,362,315</u>
Cash flows from investing activities		
Purchase of property and equipment	(13,613)	(63,413)
Net cash used in investing activities	<u>(13,613)</u>	<u>(63,413)</u>
Cash flows from financing activities		
Contributions received for long-term purposes	-	33,754
Net cash provided by financing activities	<u>-</u>	<u>33,754</u>
Net increase in cash	1,098,354	1,332,656
Cash and cash equivalents, beginning of year	<u>1,765,452</u>	<u>432,796</u>
Cash and cash equivalents, end of year	<u>\$ 2,863,806</u>	<u>\$ 1,765,452</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, 2021
(With Comparative Totals for 2020)

1. NATURE OF OPERATIONS

Guided by a twenty-month community planning process designed to re-imagine the 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 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).

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. PROGRAM SERVICES (continued)

Arts Education Program (continued)

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, 2020, the School served over 900 students through the program. In the year ended June 30, 2021, the Arts Education Program was placed on hiatus as a result of the pandemic (see Note 13). Even so, the School distributed about 5,000 art kits to students in order for them to continue arts engagement while sheltering in place.

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. During the year ended June 30, 2021, the School was unable to host its community partners due to shelter in place orders as a result of the pandemic (see Note 13).

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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. PROGRAM SERVICES (continued)

Events - Community Access and Engagement (continued)

- 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

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

The business plan written by the MHP Steering Committee in 2011 identifies rental income from the facility as an important component of the long-term sustainability of the 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. During the year ended June 30, 2021, the School served as a food distribution site, a COVID-19 testing site, and a COVID-19 vaccination site for the local East San Jose community, serving over 150,000 people (double the number typically reached in a year). The School did not host other events as a result of the pandemic (see Note 13).

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. PROGRAM SERVICES (continued)

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 138 leaders of color in Silicon Valley, of which 25 hold director-level positions, 25 are small business owners, 12 are artist laureates, 5 are San Jose Cultural Ambassadors, and 7 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.

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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. PROGRAM SERVICES (continued)

Special Initiatives

During the year ended June 30, 2021, the School of Arts and Culture at MHP launched a special project initiative, in partnership with the California Arts Council and SVCCreates, called the Administrators of Color Fellowship. The School serves as the administering organization for this pilot program that has the goal of uplifting an inclusive workforce and supporting the vibrancy of organizations that create and preserve the cultural identities of all California communities. The California Arts Council Administrators of Color Fellowship ("CAC ACF") seeks to address the dearth of opportunities for people of color in arts administration, with the intention of creating a pipeline for people of color across and throughout the arts sector. CAC ACF programming is made possible in part by a grant from The James Irvine Foundation and a one-time increase in state arts funding. This pilot project will conclude at the end of December 2021.

In addition, during the COVID-19 pandemic, the School adapted its team and space, the Mexican Heritage Plaza, to meet the needs of the local East San Jose community. The School offered food distribution, COVID-19 testing, and COVID-19 vaccinations. Altogether, the School served over 150,000 community members through COVID-19 response activities during the year ended June 30, 2021. More information can be found in Note 13 to these financial statements.

3. CHANGE IN NET ASSETS

During the years ended June 30, 2021 and 2020, the School experienced an increase in net assets of \$894,930 and \$525,174. A significant impact in the change in net assets for the years ended June 30, 2021 and 2020 can be attributed to "Donated rent" expense.

Changes in net assets for the fiscal year ended June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in net assets	\$ 1,074,430	\$ (179,500)	\$ 894,930
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	<u>-</u>	<u>(116,550)</u>	<u>(116,550)</u>
Change in net assets, excluding donated rent expense	<u>\$ 1,074,430</u>	<u>\$ 384,905</u>	<u>\$ 1,459,335</u>

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

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

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 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.

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.

School of Arts and Culture at MHP
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting principles

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019. The School adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method.

The adoption of ASU 2014-09 did not have a significant impact on the School's financial position, result of operations, or cash flows.

The School previously accounted for proceeds from the Paycheck Protection Program under the debt model. During 2021, the School changed the accounting policy from the debt model to the conditional contribution model. The School believes that the conditional contribution model is a more accurate financial representation of its business and operations. In addition, the School has determined that the conditional contribution model is preferable because it will result in better matching of revenues and expenses and align the accounting for the Paycheck Protection Program with the School's accounting for other government grants and contracts.

The School applied the change in accounting principle using full retrospective method of adoption. As such, the 2020 financial statements have been adjusted to reflect the use of the conditional contribution model. With the change in accounting principle, the proceeds from the Paycheck Protection Program which were previously reported as forgivable loan in 2020 were reclassified as a refundable advance.

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, 2020, 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. 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, 2021
(With Comparative Totals for 2020)

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, 2021 and 2020 and is included in "accounts payable and accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2021 and 2020 was \$72,265 and \$43,767, respectively.

Revenue recognition and deferred revenue

The School recognizes support and revenue on the accrual basis of accounting. Revenue from program services have been classified as "exchange transactions". The School follows the following steps to determine revenue recognition:

- 1) Identifying the contract(s) with a customer,
- 2) Identifying the performance obligations in the contract(s),
- 3) Determining the transaction price,
- 4) Allocating the transaction price to the performance obligations in the contract(s), and

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

5) Recognizing revenue when, or as, the School satisfies a performance obligation.

The performance obligation of program fees is simultaneously received and consumed by the participants; therefore, the revenue is recognized ratably over the course of the program. Rental income, principally from events, is recognized as the events are held. Advance receipts of revenue are deferred until earned.

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 restrictions 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 program services and support services benefited. Indirect expense allocations are based on square footage, percentage of personnel expenses by function, 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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, 2018 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, 2017 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.

Advertising costs

The School's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended June 30, 2021 and 2020 was \$146,813 and \$53,167 respectively.

Subsequent events

The School has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements, and are summarized in Note 15, of these financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, February 4, 2022.

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).

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5. DONATED RENT RECEIVABLE (continued)

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>	
2022	\$ 576,947
2023	589,769
2024	602,875
2025	616,273
2026	629,969
Thereafter	<u>1,975,166</u>
	4,990,999
Current portion	<u>(576,947)</u>
	<u><u>\$ 4,414,052</u></u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Theater equipment	\$ 170,749	\$ 170,749
Leasehold improvements	67,130	67,130
Office equipment	<u>22,199</u>	<u>8,586</u>
	260,078	246,465
Accumulated depreciation and amortization	<u>(167,131)</u>	<u>(117,919)</u>
	<u><u>\$ 92,947</u></u>	<u><u>\$ 128,546</u></u>

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$49,212 and \$40,702, respectively.

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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. The year ended June 30, 2020 represented year six of the Mexican Heritage Plaza operating and use agreement. Other terms of the match remain unchanged from the previous agreement.

In addition, 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.

Contributions from the City during the years ended June 30, 2021 and 2020 were as follows:

	2021	2020
For operations	\$ 425,000	\$ 425,000
For capital repairs and replacements	-	33,754
	\$ 425,000	\$ 458,754

The year ended June 30, 2021 represents year seven 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>2021</u>	<u>2020</u>
Purpose restrictions		
Organizational adaptation	\$ 900,000	\$ -
Emerging Arts Leaders of Color Fellowship Program	314,700	1,032,791
Other programs	271,075	150,200
K-12 education and summer camps	-	50,000
Fiscal sponsorship	<u>83,150</u>	<u>36,030</u>
	<u>1,568,925</u>	<u>1,269,021</u>
Time restrictions		
Donated rent for future periods	4,990,999	5,555,403
Time-restricted pledges - General operating support	<u>220,000</u>	<u>135,000</u>
	<u>5,210,999</u>	<u>5,690,403</u>
	<u>\$ 6,779,924</u>	<u>\$ 6,959,424</u>

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

	<u>2021</u>	<u>2020</u>
Purpose restrictions		
Organizational adaptation	\$ 75,000	\$ -
Emerging Arts Leaders of Color Fellowship Program	715,300	132,209
Other programs	1,158,345	396,175
K-12 education and summer camps	252,139	195,635
Multicultural Arts Leadership Institute	45,000	116,667
Change of donor restriction	-	50,000
Fiscal sponsorship	<u>40,382</u>	<u>22,943</u>
	<u>2,286,166</u>	<u>913,629</u>
Time restrictions		
Donated rent for future periods	680,955	680,955
Time-restricted pledges - General operating support	<u>85,000</u>	<u>60,000</u>
	<u>765,955</u>	<u>740,955</u>
	<u>\$ 3,052,121</u>	<u>\$ 1,654,584</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, 2021 and 2020, the School received 15% and 35% 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, 2021. 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, 2021. 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, 2021 to fund general expenditures and other obligations within one year:

Financial assets	
Cash and cash equivalents	\$ 2,863,806
Accounts receivable	250,805
Grants receivable	<u>490,525</u>
	3,605,136
Less: amounts unavailable for general expenditure within one year due to:	
Restricted for a specified purpose	(1,568,925)
Time restricted beyond one year	<u>(130,000)</u>
	<u><u>\$ 1,906,211</u></u>

13. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization ("WHO") 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 and the Shelter-In Place Orders caused many organizations, including the School, to balance obligations to audiences, families, and partners as they prepared to lose revenue. In March 2020, in line with the WHO and Center for Disease Control and Prevention ("CDC") recommendations, the School made the difficult decision to suspend its onsite after-school arts education programming, which serves 1,000 local families. School of Arts and Culture at MHP 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 the Plaza was not easy. And the ramifications of this decision were significant. By prioritizing the safety of the community, the School lost over \$300,000 in events rentals revenue. These funds support scholarships for students, access to venue spaces for community groups, 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)

Even more devastating, the working-class community was disproportionately impacted by this global pandemic. Data shows that communities of color, like East San Jose, have been disproportionately impacted by COVID-19, both in terms of the number of coronavirus cases recorded and deaths. At one point in time, according to the Santa Clara County Health Department, 31% of the COVID-19 cases in the County were located within five ZIP codes in East San Jose. For residents in the Eastside, the aftermath of COVID-19 was deadly.

Given the global pandemic's impact on the School's community and the Mexican Heritage Plaza's significant footprint, the School adapted its services to become a community hub for essential resources and information. As a creator and keeper of culture in East San José, School of Arts and Culture at MHP recognized its responsibility to guard and preserve the community's rich history and heritage, especially in times of crisis. As such, the School leaned into the following services during the fiscal year ending June 30, 2021:

1. Food Distribution Site: In June 2020, the Plaza was transformed into a convenient, safe location for East San Jose families to access the food, supplies, and information they need during the crisis. For this effort, the School partnered with and fed over 50,000 residents.
2. Testing Site: In August 2020, the School partnered with Gardner Health Services and the County of Santa Clara to provide No Cost COVID-19 Testing at the Plaza. Over the year, the School tested over 15,000 residents.
3. Vaccination Site: In January 2021, the School continued its partnership with Gardner Health Services and the County of Santa Clara to provide COVID-19 Vaccines onsite. By the end of the fiscal year, the School vaccinated over 25,000 residents.
4. Digital Platform: In a typical year, the School works with over 60 local artists and multicultural groups. During the pandemic, the School explored ways to show up for the creative sector by:
 - a. Building a digital platform for its Community Engagement Program partners to produce content. Over 50,000 people were reached virtually through virtual cultural programming.
 - b. Increasing its digital "know-how" in order to successfully develop effective health awareness campaigns as part of the County's recovery efforts. Through this effort, over 100,000 residents were reached with culturally relevant messaging that encouraged testing and vaccination in multiple languages.

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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 accrued interest at a rate of 1% and had an original maturity date in 2022. 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 within certain limitations.

The School elected to record this loan under the conditional contribution model and recognizes revenues as qualifying expenditures are incurred and barriers are met. The School incurred qualifying expenses and maintained its headcount as required. The School has considered whether conditional grant revenue should be retrospectively recognized since a portion of the qualifying expenditures were incurred during the year ended June 30, 2020. On January 27, 2021, the School received notification that the SBA issued a judgment of full forgiveness of the School's PPP loan and the final barrier was met. During the years ended June 30, 2021 and 2020, the School recognized \$126,118 and \$0, respectively, of government grant support from the PPP.

15. SUBSEQUENT EVENTS

The School has evaluated subsequent events through February 4, 2022, the date the financial statements were available to be issued.

On July 16, 2021, the School was granted \$988,279 under the Shuttered Venue Operators Grant ("SVOG") program implemented by the SBA under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The SVOG program was created to prevent widespread closures of venues that were devastated by the loss of revenue due to the COVID-19 pandemic. The SVOG program provides eligible applicant with grants equal to 45% of their gross earned revenue, up to a maximum of \$10,000,000. SVOG recipients have up to one year to use grant funds to reimburse themselves for allowable expenses of the program.