

## **School of Arts and Culture at MHP**

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2022  
(With Comparative Totals for 2021)



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
School of Arts and Culture at MHP  
San Jose, California

### **Opinion**

We have audited the accompanying financial statements of School of Arts and Culture at MHP (the "School"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of School of Arts and Culture at MHP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

We have previously audited School of Arts and Culture at MHP's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 4, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about School of Arts and Culture at MHP's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School of Arts and Culture at MHP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about School of Arts and Culture at MHP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Armanino<sup>LLP</sup>  
San Jose, California

March 30, 2023

School of Arts and Culture at MHP  
Statement of Financial Position  
June 30, 2022  
(With Comparative Totals for 2021)

	2022	2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,516,178	\$ 2,863,806
Accounts receivable	121,930	250,805
Grants receivable, current portion	938,454	360,525
Donated rent receivable, current portion (Note 5)	589,769	576,947
Prepaid expenses and deposits	35,450	32,466
Total current assets	6,201,781	4,084,549
Property and equipment, net	55,883	92,947
Other assets		
Grants receivable, net of current portion	64,000	130,000
Donated rent receivable, net of current portion (Note 5)	3,824,292	4,414,052
Other assets	199,394	-
Total other assets	4,087,686	4,544,052
Total assets	\$ 10,345,350	\$ 8,721,548
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 351,034	\$ 241,828
Deferred revenue	154,982	50,797
Refundable advance - Shuttered Venue Operators Grant	625,829	-
Total current liabilities	1,131,845	292,625
Net assets		
Without donor restrictions		
Undesignated	3,323,003	1,606,554
Board designated operating reserve	542,445	42,445
Total without donor restrictions	3,865,448	1,648,999
With donor restrictions	5,348,057	6,779,924
Total net assets	9,213,505	8,428,923
Total liabilities and net assets	\$ 10,345,350	\$ 8,721,548

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, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support and revenue				
Support				
Grants and contributions	\$ 4,095,396	\$ 1,282,373	\$ 5,377,769	\$ 4,134,751
Donated rent present value discount amortization (Note 5)	-	104,007	104,007	116,550
Government grants - Paycheck Protection Program	-	-	-	126,118
Total support	<u>4,095,396</u>	<u>1,386,380</u>	<u>5,481,776</u>	<u>4,377,419</u>
Revenue				
Rental income	986,308	-	986,308	585,001
Other revenue	37,547	-	37,547	20,662
Interest income	2,041	-	2,041	1,028
Total revenue	<u>1,025,896</u>	<u>-</u>	<u>1,025,896</u>	<u>606,691</u>
Total support and revenue	5,121,292	1,386,380	6,507,672	4,984,110
Net assets released from restriction	<u>2,818,247</u>	<u>(2,818,247)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>7,939,539</u>	<u>(1,431,867)</u>	<u>6,507,672</u>	<u>4,984,110</u>
Functional expenses				
Program services				
Arts Education Program	485,075	-	485,075	8,720
Events - community access and engagement and market rate rental program	1,618,068	-	1,618,068	489,341
Multicultural Arts Leadership Institute	129,250	-	129,250	78,780
Facility	1,171,066	-	1,171,066	574,188
Special initiatives	1,556,364	-	1,556,364	2,423,261
Total program services	<u>4,959,823</u>	<u>-</u>	<u>4,959,823</u>	<u>3,574,290</u>
Support services				
Management and general	510,637	-	510,637	335,755
Fundraising	252,630	-	252,630	179,135
Total support services	<u>763,267</u>	<u>-</u>	<u>763,267</u>	<u>514,890</u>
Total functional expenses	<u>5,723,090</u>	<u>-</u>	<u>5,723,090</u>	<u>4,089,180</u>
Change in net assets (Note 3)	2,216,449	(1,431,867)	784,582	894,930
Net assets, beginning of year	<u>1,648,999</u>	<u>6,779,924</u>	<u>8,428,923</u>	<u>7,533,993</u>
Net assets, end of year	<u>\$ 3,865,448</u>	<u>\$ 5,348,057</u>	<u>\$ 9,213,505</u>	<u>\$ 8,428,923</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, 2022  
(With Comparative Totals for 2021)

	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	2022 Total	2021 Total
Personnel expenses										
Temporary contractors	\$ 10,455	\$ 551,291	\$ 11,364	\$ 194,287	\$ 532,785	\$ 1,300,182	\$ 10,027	\$ 15,100	\$ 1,325,309	\$ 1,056,149
Salaries and wages	138,150	489,476	76,121	206,293	450,766	1,360,806	198,508	134,915	1,694,229	1,043,878
Employee benefits	5,875	24,512	3,218	23,398	47,488	104,491	25,387	9,169	139,047	90,239
Payroll taxes	13,495	46,052	5,815	16,595	31,896	113,853	13,585	10,936	138,374	87,454
Total personnel expenses	<u>167,975</u>	<u>1,111,331</u>	<u>96,518</u>	<u>440,573</u>	<u>1,062,935</u>	<u>2,879,332</u>	<u>247,507</u>	<u>170,120</u>	<u>3,296,959</u>	<u>2,277,720</u>
Professional services	6,704	24,199	2,175	-	216,105	249,183	124,419	54,581	428,183	431,177
Utilities	-	-	-	271,930	-	271,930	14,726	-	286,656	176,472
Grant expenses	-	15,000	-	-	238,488	253,488	-	-	253,488	-
Repairs and maintenance	-	190	-	192,161	-	192,351	-	-	192,351	77,560
Event rental expense	1,640	106,027	-	-	-	107,667	-	-	107,667	75,059
Fiscal sponsorship expenses	-	152,479	-	-	-	152,479	-	-	152,479	43,674
Office expenses	216	779	-	44,609	23,115	68,719	23,270	-	91,989	44,072
Program expenses	10,345	34,493	8,819	-	6,776	60,433	-	-	60,433	171,707
Depreciation and amortization	17,538	9,755	1,285	12,849	-	41,427	1,285	145	42,857	49,212
Dues and subscriptions	1,557	7,935	-	4,446	7,279	21,217	13,042	4,000	38,259	19,195
Conferences, conventions and meetings	456	424	25	-	1,636	2,541	20,436	425	23,402	12,123
Special events	-	-	-	-	-	-	476	21,010	21,486	240
Other operating expenses	-	472	-	350	30	852	19,967	34	20,853	3,212
Insurance	-	-	-	-	-	-	18,121	-	18,121	19,746
Building and equipment rental	-	-	-	-	-	-	6,960	-	6,960	7,056
Total	<u>206,431</u>	<u>1,463,084</u>	<u>108,822</u>	<u>966,918</u>	<u>1,556,364</u>	<u>4,301,619</u>	<u>490,209</u>	<u>250,315</u>	<u>5,042,143</u>	<u>3,408,225</u>
Donated rent	<u>278,644</u>	<u>154,984</u>	<u>20,428</u>	<u>204,148</u>	<u>-</u>	<u>658,204</u>	<u>20,428</u>	<u>2,315</u>	<u>680,947</u>	<u>680,955</u>
	<u>\$ 485,075</u>	<u>\$ 1,618,068</u>	<u>\$ 129,250</u>	<u>\$ 1,171,066</u>	<u>\$ 1,556,364</u>	<u>\$ 4,959,823</u>	<u>\$ 510,637</u>	<u>\$ 252,630</u>	<u>\$ 5,723,090</u>	<u>\$ 4,089,180</u>
Percentage of total	<u>9 %</u>	<u>28 %</u>	<u>2 %</u>	<u>21 %</u>	<u>27 %</u>	<u>87 %</u>	<u>9 %</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, 2022  
(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 784,582	\$ 894,930
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	42,857	49,212
Donated rent expense	680,947	680,955
Donated rent present value discount amortization	(104,007)	(116,550)
Changes in operating assets and liabilities		
Accounts receivable	128,873	(234,196)
Grants receivable	(511,929)	(81,915)
Prepaid expenses and deposits	(2,982)	1,317
Other assets	(199,394)	-
Accounts payable and accrued liabilities	109,206	32,062
Deferred revenue	104,185	12,270
Refundable advance - Paycheck Protection Program	-	(126,118)
Refundable advance - Shutterred Venue Operators Grant	625,829	-
Net cash provided by operating activities	1,658,167	1,111,967
Cash flows from investing activities		
Purchase of property and equipment	(5,795)	(13,613)
Net cash used in investing activities	(5,795)	(13,613)
Net increase in cash	1,652,372	1,098,354
Cash and cash equivalents, beginning of year	2,863,806	1,765,452
Cash and cash equivalents, end of year	\$ 4,516,178	\$ 2,863,806

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

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

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 100,000 visitors annually. It 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 artistic expression in marginalized communities is vital to their health. As such, the School serves 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 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 8).

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 at-risk youth. 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, 2022  
(With Comparative Totals for 2021)

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. In the year ending June 30, 2021, the Arts Education Program was placed on hiatus due to the pandemic. Even so, the School distributed about 5,000 art kits to students for them to continue arts engagement while sheltering in place. The Arts Education Program has not returned to its pre-COVID level of activity. This is partly because the East San Jose community that the Program primarily serves remains disproportionately impacted by the pandemic. Even as other parts of San Jose recover, East San Jose's recovery lags, and residents here cannot pay for arts education programming. As a result, the School is redesigning its Arts Education Program to be free of charge to those families who live in the local neighborhoods surrounding the Plaza. In FY22, the School offered all of its Arts Education Program activities for free and served 1,000 youth through its summer camps and community event workshops.

Events - Community Access and Engagement

The Community Engagement Program provides local artists, arts, and community agencies access to the Mexican Heritage Plaza, training and technical assistance on using 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 residents 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 156 productions. During the year ended June 30, 2021, the School was unable to host our community partners due to shelter-in-place orders as a result of the pandemic. Twenty-eight community partners returned to the Plaza during the year ended June 30, 2022; the School hosted over 84 community events. This activation continues to increase steadily as the arts and cultural sector and the local neighborhood recover from the pandemic.

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 to leverage existing relationships and capacity while advancing and growing collective impact.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

2. PROGRAM SERVICES (continued)

Events - Community Access and Engagement (continued)

- Build community confidence, enthusiasm, and trust over time through consistent communication, responsiveness, and a reliable menu of opportunities.
- Develop a broad mix of programming focusing on Mexican culture while activating opportunities for social integration with the wider multicultural artistic community present in San Jose.
- Facilitate multiple entry points for community members, partner organizations, and 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 the 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.

The business plan written by the MHP Steering Committee in 2011 identifies rental income from the facility as an essential component of the long-term sustainability of the School of Arts and Culture at MHP. At its inception, 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 resulted in the increased usage of the facility by several arts organizations and private events in a manner never before seen under previous operators. However, in FY22, the School decided to bring the management of the market rate rentals in-house and hired its own team to manage the department. The School's Market Rate Rental Program generates revenue that then directly supports the School's programs. In addition, 98% of all events 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). School of Arts and Culture at MHP did not host other events as a result of the pandemic. However, in FY22, the School began to host events and celebrations again. As before, these events are deeply rooted in the community.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

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 work, organizations, and the arts sector in Silicon Valley. Since 2008, MALI has worked with 146 leaders of color in Silicon Valley, of which 25 hold director-level positions, 22 are small business owners, 12 are artist laureates, six are San Jose Cultural Ambassadors, five are recipients of the Leigh Weimers award, and seven 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 participate in the creative economy fully.

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 the City of San Jose owns. 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.

Special initiatives

During the year ended June 30, 2022, the School launched a new program, Community Development, that seeks to inform and influence what the neighborhood surrounding the Mexican Heritage Plaza can become. The School leverages a cultural district strategy to preserve the cultures, traditions, and identities that are uniquely San Jose to establish the City's first cultural district with the Plaza at its center. School of Art's and Culture at MHP's priority is acquiring a building across the street from the Plaza, where the School intends to expand some of its current programs.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

2. PROGRAM SERVICES (continued)

Special initiatives (continued)

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 SVCreates, called the Administrators of Color Fellowship. The School served as the administering organization for this pilot program that aimed to uplift an inclusive workforce and support 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) sought to address the need for more opportunities for people of color in arts administration to create a pipeline for people of color across and throughout the arts sector. CAC ACF programming was made possible partly by a grant from The James Irvine Foundation and a one-time increase in state arts funding. This pilot project concluded 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.

3. CHANGE IN NET ASSETS

During the years ended June 30, 2022 and 2021, the School experienced an increase in net assets of \$784,582 and \$894,930. A significant impact in the change in net assets for the years ended June 30, 2022 and 2021 can be attributed to "Donated rent" expense.

Changes in net assets for the fiscal year ended June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in net assets	\$ 2,216,449	\$ (1,431,867)	\$ 784,582
Add back:			
Donated rent expense	680,947	-	680,947
Less:			
Release from time restriction (Note 9)	(680,947)	680,947	-
Donated rent present value discount amortization	<u>-</u>	<u>(104,007)</u>	<u>(104,007)</u>
Change in net assets, excluding donated rent expense	<u>\$ 2,216,449</u>	<u>\$ (854,927)</u>	<u>\$ 1,361,522</u>

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. CHANGE IN NET ASSETS (continued)

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 9)	(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>

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, 2022  
(With Comparative Totals for 2021)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements adopted

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The School adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

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, 2021, 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.

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.



School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 and 2021 and is included in "accounts payable and accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2022 and 2021 was \$93,938 and \$72,265, 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
- 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.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as 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. Amounts received for which the School is not yet entitled to, are recorded as refundable advance.

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.

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.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The School's federal returns for the years ended June 30, 2019 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, 2018 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, 2022 and 2021 was \$124,200 and \$145,083 respectively.

Subsequent events

The School has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements, and are summarized in Note 14, of these financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, March 30, 2023.

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 8).

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.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

5. DONATED RENT RECEIVABLE (continued)

Donated rent receivable is expected to be amortized as follows:

<u>Year ending June 30,</u>		
2023	\$	589,769
2024		602,875
2025		616,273
2026		629,969
2027		643,969
Thereafter		<u>1,331,206</u>
		4,414,061
Current portion		<u>(589,769)</u>
	<u>\$</u>	<u>3,824,292</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Theater equipment	\$ 170,749	\$ 170,749
Leasehold improvements	67,130	67,130
Office equipment	<u>27,997</u>	<u>22,199</u>
	265,876	260,078
Accumulated depreciation and amortization	<u>(209,993)</u>	<u>(167,131)</u>
	<u>\$ 55,883</u>	<u>\$ 92,947</u>

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$42,857 and \$49,212, respectively.

7. REFUNDABLE ADVANCE - SHUTTERED VENUE OPERATORS GRANT

During the year ended June 30, 2022, the School received funds from the Small Business Administration's ("SBA") Shuttered Venue Operators Grant Program totaling \$988,279. Of the total amount, the School was able to retain and recognize as income \$362,450 based on qualifying expenditures being incurred. The remaining balance of \$625,829 represents an overpayment that will be refunded to the SBA.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

8. MEXICAN HERITAGE PLAZA OPERATOR AND USE AGREEMENT

In January 2014, the 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 on June 30, 2029, both parties may elect to extend the agreement term for two 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 annually in years one to five and \$425,000 annually in years six through termination. The year ended June 30, 2022, represents year eight 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 ended June 30, 2022, represents year eight of the Mexican Heritage Plaza operating and use agreement.

Contributions from the City during the years ended June 30, 2022 and 2021 were as follows:

	2022	2021
For operations	\$ 425,000	\$ 425,000
For capital repairs and replacements	48,862	33,754
	\$ 473,862	\$ 458,754

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Purpose restrictions		
Other programs	\$ 499,284	\$ 450,884
Organizational adaptation	250,000	900,000
Fiscal sponsorship	176,212	89,838
K-12 education and summer camps	8,500	-
Emerging Arts Leaders of Color Fellowship Program	-	314,700
Multicultural Arts Leadership Institute	-	33,500
	<u>933,996</u>	<u>1,788,922</u>
Donated rent for future periods	<u>4,414,061</u>	<u>4,991,002</u>
	<u>\$ 5,348,057</u>	<u>\$ 6,779,924</u>

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

	<u>2022</u>	<u>2021</u>
Purpose restrictions		
Organizational adaptation	\$ 650,000	\$ 75,000
Emerging Arts Leaders of Color Fellowship Program	314,700	715,300
Other programs	895,397	1,158,345
Fiscal sponsorship	192,153	40,382
Multicultural Arts Leadership Institute	53,500	45,000
K-12 education and summer camps	31,550	252,139
	<u>2,137,300</u>	<u>2,286,166</u>
Donated rent for future periods	680,947	680,955
Time-restricted pledges - General operating support	-	85,000
	<u>\$ 2,818,247</u>	<u>\$ 3,052,121</u>

10. 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.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

11. 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.

12. CONCENTRATIONS

During the years ended June 30, 2022 and 2021, the School received 13% and 15% 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.

13. 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 \$542,445 that is available to pay for operating needs.

Accounts receivable consist of amounts expected to be received within one year from June 30, 2022. 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, 2022. The current portion of grants receivable without donor restrictions will be available to support general operations of the School.

School of Arts and Culture at MHP  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

13. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes assets and liquid resources that are available as of June 30, 2022 to fund general expenditures and other obligations within one year:

Financial assets	
Cash and cash equivalents	\$ 4,516,178
Accounts receivable	121,930
Grants receivable	<u>1,002,454</u>
	5,640,562
Less: amounts unavailable for general expenditure within one year due to:	
Restricted for a specified purpose	<u>(933,996)</u>
	<u><u>\$ 4,706,566</u></u>

14. SUBSEQUENT EVENTS

The School has evaluated subsequent events through March 30, 2023, the date the financial statements were available to be issued.

On December 19, 2022, the School, Gardner Family Health Services, and Community Art Stabilization Trust entered into an operating agreement to form 1751 Alum Rock LLC for the purpose of acquiring a building across the street from the Plaza, where the School intends to expand some of its current programs.

On January 12, 2023, the School, in partnership with Gardner Health Services and Community Arts Stabilization Trust, purchased a 28,000 square foot commercial building (1747-1785 Alum Rock Avenue) for \$10.2 million across the street from the Mexican Heritage Plaza to expand cultural programming and bring family wellness services to the Mayfair community. The purchase of La Plaza, Jr. was made possible by grants, donors and a \$2 million program-related investment loan from Sobrato Philanthropies.



SINGLE AUDIT REPORTS AND SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
School of Arts and Culture at MHP  
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of School of Arts and Culture at MHP (the "School"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 30, 2023.

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Jose, California

March 30, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE

Board of Directors  
School of Arts and Culture at MHP  
San Jose, California

### **Report on Compliance for Each Major Federal Program**

#### **Opinion on Each Major Federal Program**

We have audited School of Arts and Culture at MHP (the "School")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2022. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

#### **Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

#### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Jose, California

March 30, 2023

School of Arts and Culture at MHP  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of the Treasury			
Coronavirus State and Local Fiscal Recovery Funds			
Pass-through program from:			
City of San Jose	21.027	8088	\$ 86,917
City of San Jose	21.027	646926	374,900
City of San Jose	21.027	OC-000168	5,500
Total Coronavirus State and Local Fiscal Recovery Funds			<u>467,317</u>
Total U.S. Department of the Treasury			<u>467,317</u>
U.S. Small Business Administration			
Direct awards			
Shuttered Venue Operators Grant Program	59.075	N/A	<u>362,450</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants			
Pass-through program from:			
City of San Jose	14.218	CDBGCV-20-004A4	49,632
City of San Jose	14.218	CPS-16-016G	15,125
Total Community Development Block Grants/Entitlement Grants			<u>64,757</u>
Total U.S. Department of Housing and Urban Development			<u>64,757</u>
U.S. Department of Health and Human Services			
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises			
Pass-through program from:			
County of Santa Clara	93.391	4300021333	<u>4,437</u>
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			
Pass-through program from:			
County of Santa Clara	93.323	4300021333	11,819
California Department of Public Health	93.323	43000190171	28,269
California Department of Public Health	93.323	21-10263	85,691
Total Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			<u>125,779</u>
Total U.S. Department of Health and Human Services			<u>130,216</u>
Total Expenditures of Federal Awards			<u>\$ 1,024,740</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards  
are an integral part of this schedule.

School of Arts and Culture at MHP  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of School of Arts and Culture at MHP (the "School") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The School has elected to not use the 10% de minimus indirect cost rate for federal awards. The School applies indirect costs in accordance with the specific terms of its specific award agreements.



School of Arts and Culture at MHP  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
American Recovery Plan	21.027
Shuttered Venues Operating Grant	59.075

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

School of Arts and Culture at MHP  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

School of Arts and Culture at MHP  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2022

There were no prior year findings.