

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2013 with Comparative Totals
for the Year Ended June 30, 2012

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

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SECTION I
FINANCIAL SECTION
FINANCIAL STATEMENTS

FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
School of Arts and Culture at MHP
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the accompanying financial statements of School of Arts and Culture at MHP (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

As discussed in Note 3 to the financial statements, 1stACT Silicon Valley's board of directors created a separate 501(c)(3) entity and directed 1stACT Silicon Valley's Chief Executive Officer to execute an operating and financial agreement with the City of San Jose to fulfill its incubation duties. In May 2013, the School achieved complete independence from 1stACT Silicon Valley. The School established a separate board of directors and appointed a new Executive Director. The financial statements of 1stACT Silicon Valley have not been consolidated in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that a nonprofit organization that controls a related nonprofit organization through a majority voting interest in the board of the related organization and has an economic interest in the related organization must consolidate the related nonprofit organization.

In our opinion, except for the effects of not consolidating the related nonprofit organization as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of School of Arts and Culture at MHP as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited School of Arts and Culture at MHP's financial statements for the year ended June 30, 2012, and our report dated October 29, 2012, expressed a modified opinion on those audited financial statements for the reason described in the first paragraph of the opinion section above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
December 18, 2013

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2013 with Comparative Totals as of June 30, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 70,819	\$ 126,714
Accounts Receivable	27,926	9,285
Grants Receivable	344,000	223,940
Pledges Receivable	800	750
Prepaid Expenses and Deposits	<u>28,306</u>	<u>29,298</u>
Total Current Assets	<u>471,851</u>	<u>389,987</u>
PROPERTY AND EQUIPMENT, NET	<u>17,777</u>	<u>1,834</u>
TOTAL ASSETS	<u>\$ 489,628</u>	<u>\$ 391,821</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 191,713	\$ 105,771
Due to 1stACT Silicon Valley	540	28,129
Deferred Revenue	<u>53,403</u>	<u>31,855</u>
Total Current Liabilities	<u>245,656</u>	<u>165,755</u>
NET ASSETS:		
Unrestricted Net Assets (Deficit)	33,472	(19,184)
Temporarily Restricted Net Assets	<u>210,500</u>	<u>245,250</u>
Total Net Assets (See Note 14)	<u>243,972</u>	<u>226,066</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 489,628</u>	<u>\$ 391,821</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	2013			2012
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Grants and Contributions	\$ 643,663	\$ 210,500	\$ 854,163	\$ 994,399
Contributions In-Kind	745,594	-	745,594	782,093
Total Support	<u>1,389,257</u>	<u>210,500</u>	<u>1,599,757</u>	<u>1,776,492</u>
Revenue:				
Rental Income	409,586	-	409,586	302,070
Tuition and Fees	61,616	-	61,616	31,059
Other Revenue	3,883	-	3,883	500
Interest Income	446	-	446	378
Total Revenue	<u>475,531</u>	<u>-</u>	<u>475,531</u>	<u>334,007</u>
Total Support and Revenue	<u>1,864,788</u>	<u>210,500</u>	<u>2,075,288</u>	<u>2,110,499</u>
Net Assets Released from Restrictions	<u>245,250</u>	<u>(245,250)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>2,110,038</u>	<u>(34,750)</u>	<u>2,075,288</u>	<u>2,110,499</u>
EXPENSES:				
Program Services:				
School Program	685,851	-	685,851	660,685
Events - Community Access and Engagement and Market Rental Program	495,559	-	495,559	487,463
Multicultural Arts Leadership Institute Facility	79,094	-	79,094	91,425
	527,798	-	527,798	434,439
Total Program Services	<u>1,788,302</u>	<u>-</u>	<u>1,788,302</u>	<u>1,674,012</u>
Supporting Services:				
Management and General	218,406	-	218,406	167,779
Fundraising	50,674	-	50,674	46,562
Total Supporting Services	<u>269,080</u>	<u>-</u>	<u>269,080</u>	<u>214,341</u>
Total Expenses	<u>2,057,382</u>	<u>-</u>	<u>2,057,382</u>	<u>1,888,353</u>
CHANGE IN NET ASSETS	52,656	(34,750)	17,906	222,146
NET ASSETS, Beginning of Year (See Note 14)	<u>(19,184)</u>	<u>245,250</u>	<u>226,066</u>	<u>3,920</u>
NET ASSETS, End of Year	<u>\$ 33,472</u>	<u>\$ 210,500</u>	<u>\$ 243,972</u>	<u>\$ 226,066</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 17,906	\$ 222,146
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	2,445	63
(Increase) Decrease in Assets:		
Accounts Receivable	(18,641)	(9,285)
Grants Receivable	(120,060)	(223,940)
Pledges Receivable	(50)	(750)
Prepaid Expenses and Deposits	992	(29,298)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	85,942	105,771
Due to 1stACT Silicon Valley	(27,589)	28,129
Deferred Revenue	21,548	31,855
Net Cash Provided (Used) by Operating Activities	(37,507)	124,691
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(18,388)	(1,897)
Net Cash Used by Investing Activities	(18,388)	(1,897)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,895)	122,794
CASH AND CASH EQUIVALENTS, Beginning of Year	126,714	3,920
CASH AND CASH EQUIVALENTS, End of Year	\$ 70,819	\$ 126,714

The Accompanying Notes are an Integral Part of these Financial Statements.

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Guided by a twenty-month community planning process designed to re-imagine Mexican Heritage Plaza's future, a new vision for a School of Arts and Culture at MHP (the "Organization" or the "School") was created, embraced by the community and adopted by the City of San Jose in Spring 2011 (see Note 3). The School was formally launched in July 2011 with a vision to create a vibrant place of learning, culture and community that nurtures the soul and brings joy, skill building and a sense of belonging to children, families and all who participate. The goal of the School is to narrow the opportunity gap in arts education and learning, nurture the joy, creativity and well-being of our children and unleash the talent of our next generation of students, leaders, artists and consumers of culture. The School is leveraging a \$35 million cultural facility by providing unique and culturally relevant educational offerings of value to the children and families in our community while also creating a "community container" for arts programming with a network of multicultural arts partners.

NOTE 2 - PROGRAM SERVICES:

School Program - The School provides a "multi-cultural and inter-cultural venue" for community events and programs that embrace all cultures, while exploring the artistic traditions, cultural history, and contemporary creative expression of Mexican and Latin American arts. School of Arts and Culture at MHP believes that the arts are powerful vehicles for human development and social transformation - by creating nurturing communities for children, especially those at risk. The School works to create a deep alignment in social and artistic goals. Its task is not to integrate the goals of social transformation and artistic excellence - but to, in the words of its colleagues in the El Sistema movement "reimagine them as one goal." Performance and exhibition is emphasized with the goal of working together toward a communal and joyful experience of creating art together - not as competitive pressure to see who is best.

The School is proud to offer children and the community an inspiring space of professional caliber for performance and exhibition as a vehicle to make their learning visible. Afterschool programs span ten weeks; summer day camps provide a full day of arts curriculum, a healthy lunch and two snacks. All sessions culminate in a student performance/exhibition open to the community. Classes include hip hop, breakdance, folklórico, capoeira, Brazilian samba, reggae and Afro-Cuban conga drumming, mariachi for both vocal and instrumental, Mexican folk arts and crafts, salsa dance, paper maché Mexican mural painting, self-portraiture drawing, painting, sculpture, tlacuilo drawing, classical guitar, Aztec dance and drumming, and cómicas and graphic novels.

Events - Community Access and Engagement - School of Arts and Culture at MHP wishes to create as many opportunities as possible for the community to visit, use, perform, and learn at the Mexican Heritage Plaza. Like the School of Arts and Culture at MHP, the Plaza was created through extensive community processes. The School continues to honor the Plaza's work and history by ensuring a practice of open communication exists and that multiple entry points are developed over time.

The School's Community Access policy is defined primarily by the spirit of the Guiding Principles for Community Access and Engagement:

- Create welcoming, inclusive and affordable community gatherings and cultural offerings in partnership with artists, arts organizations and community focused nonprofits that capitalize on the strengths of this unique facility and location in the Eastside of San José.

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

- Develop partnerships with a network of artists, arts and community organizations that will leverage existing relationships and capacity while advancing and growing collective impact.
- Build community confidence, enthusiasm and trust over time through consistent communication, responsiveness and a reliable menu of opportunities.
- Develop a broad mix in programming with a focus on Mexican culture while activating opportunities for social integration with the broader multicultural artistic community present in San José.
- Facilitate multiple points of entry for community members, partner organizations as well as private clients.
- Create a relationship of reciprocity with organizations and the community through “mission compatible” activation of spaces.
- Embrace grassroots participation as critical to the success of School of Arts and Culture at MHP's vision, and provide opportunities for community feedback through face to face meetings, the Advisory Committee on Permanent Governance (ACPG) quarterly meetings and a feedback button on the Organization's website.

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

The business plan written by the MHP Steering Committee in 2011 identifies rental income from the facility as an important component of the long term sustainability of School of Arts and Culture at MHP. The School has partnered with a for profit company, Giant Creative Services to ensure a careful, creative and attentive approach to market rate rentals. This close partnership with the School staff has successfully increased the usage of the facility by a number of arts organizations and private events in a manner never before seen under previous operators. The School's Market Rental Program generates revenue that then directly supports the school program.

Multicultural Arts Leadership Institute (MALI) - The Multicultural Arts Leadership Institute (MALI) is a professional development opportunity for leaders of color in the arts, culture and entertainment sectors. Currently, so many people of color serve their community through the arts but often work in isolation and without much support. The MALI program was created by people of color, with people of color distinctly in mind. It was piloted under the auspices of 1stACT Silicon Valley from 2008 to 2011 and formally became a stand-alone program operated by School of Arts and Culture at MHP in July 2011. The mission of MALI aligns directly with the School of Arts and Culture at MHP's intention to strengthen the multicultural arts community and cultivate new audiences and cross-cultural experiences. MALI's presence at School of Arts and Culture at MHP provides a network of nearly 60 graduates who are strong multi-cultural leaders who can be leveraged to advance the vision of the School. The School provides a home for MALI.

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Facility - The School of Arts and Culture at MHP operates the Mexican Heritage Plaza, which is owned by the City of San Jose. The School leverages the \$35 million facility to offer its programs, including quality arts education courses to the community through its School Program; an arts leadership program for people of color (i.e. the Multicultural Arts Leadership Institute); and community events through its Community Access and Engagement and Market Rental programs. In this way, the long under-utilized facility is activated and transformed into a vibrant hub of community activity.

NOTE 3 - 1STACT SILICON VALLEY:

After a twenty-month community process to re-envision the Mexican Heritage Plaza, a Community Steering Committee and the City of San Jose asked 1stACT Silicon Valley to be the incubator operator of the School of Arts and Culture at MHP (see Note 6) for up to 3 years. During incubation, 1stACT Silicon Valley's board of directors and Chief Executive Officer were asked to steward the vision, operate the facility, test the business model and prepare for a permanent operator. To that end, 1stACT Silicon Valley's board of directors created a separate 501(c)(3) entity and directed 1stACT Silicon Valley's Chief Executive Officer to execute an operating and financial agreement with the City of San Jose to fulfill its incubation duties. In May 2013, the School achieved complete independence from 1stACT Silicon Valley. The School established a separate board of directors and appointed a new Executive Director.

The financial statements of 1stACT Silicon Valley have not been consolidated in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that a nonprofit organization that controls a related nonprofit organization through a majority voting interest in the board of the related organization and has an economic interest in the related organization must consolidate the related nonprofit organization.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of School of Arts and Culture at MHP have been prepared on the accrual basis of accounting.

Basis of Presentation - In accordance with accounting principles generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, property and equipment fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted support received in the current period for which the restrictions have been met in the current period.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Fair Value Measurements - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounts, Grants and Pledges Receivable - The Organization considers all accounts, grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Promises to Give - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. The Organization considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which is 5 to 7 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2013 and 2012. The accrued vacation balance as of June 30, 2013 and 2012 was \$17,407 and \$13,572 respectively.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Donated space is recorded at the estimated fair value of comparable property as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are based on square footage and/or the number of full time equivalent staff members in each activity.

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes - School of Arts and Culture at MHP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701d of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Income Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns could be subject to examination by federal taxing authorities, generally for 3 years after they are filed. The Organization's state returns could be subject to examination by state taxing authorities, generally for 4 years after they are filed.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2013 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2013. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 18, 2013.

NOTE 5 - PROPERTY AND EQUIPMENT:

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

	<u>2013</u>	<u>2012</u>
Office Furniture	\$ 4,147	\$ 1,897
Theater Equipment	<u>16,138</u>	<u>-</u>
	20,285	1,897
Less: Accumulated Depreciation	<u>(2,508)</u>	<u>(63)</u>
Property and Equipment, Net	<u>\$ 17,777</u>	<u>\$ 1,834</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$2,445 and \$63 respectively.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - MEXICAN HERITAGE PLAZA INTERIM INCUBATOR OPERATOR AND USE AGREEMENT:

1stACT Silicon Valley (see Note 3) entered into an agreement with the City of San Jose (the "City") effective July 1, 2011 through June 30, 2014 for the operation and use of the Mexican Heritage Plaza (the "Plaza") located at 1700 Alum Rock Avenue, San Jose, California. The Plaza consists of a theater, pavilion, classrooms, gallery, studio, main office, box office, gardens, foundation, open air plaza, parking lots, and other improvements. In January 2012, after the School of Arts and Culture at MHP had been established as a separate 501(c)(3) organization, the agreement with the City of San Jose was amended, making the School the interim operator of the Mexican Heritage Plaza. As a result, the School accepted all responsibilities of operation of the space that 1stACT Silicon Valley previously held.

As part of the agreement, the City will provide financial support on a fiscal year basis subject to annual appropriation by the City Council. The City's financial support is intended to supplement School of Arts and Culture at MHP's other funding sources and shall be used by School of Arts and Culture at MHP to further its obligations under this agreement at the Plaza.

The City intends to provide annual financial support to School of Arts and Culture at MHP ("Operations Payment") for the operations and use of the Plaza as follows:

The City's financial contribution shall consist of:

Quarterly Operations Payments

Quarterly operations payments shall be structured based on the City providing a match for earned and contributed income raised by School of Arts and Culture at MHP. The match by the City shall not exceed the following maximum amounts in each year of the agreement:

Year 1 (July 1, 2011 through June 30, 2012) - \$540,000

Year 2 (July 1, 2012 through June 30, 2013) - \$495,000

Year 3 (July 1, 2013 through June 30, 2014) - \$450,000

The match will be determined based on actual revenue collected and reported by School of Arts and Culture at MHP to the City's Director, subject to verification by the City's Director. The parties agree that up to 20% of School of Arts and Culture at MHP's targeted revenue amounts may consist of in-kind and pro bono goods and services.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - MEXICAN HERITAGE PLAZA INTERIM INCUBATOR OPERATOR AND USE AGREEMENT (Continued):

Annual Appropriation of Funds for Capital Repairs and Capital Replacements at the Plaza

The City's annual appropriation of funds for Capital Repairs and Capital Replacements at the Plaza shall be as follows:

Year 1 (July 1, 2011 through June 30, 2012) - \$60,000

Year 2 (July 1, 2012 through June 30, 2013) - \$55,000

Year 3 (July 1, 2013 through June 30, 2014) - \$50,000

According to the term of the agreement, the name for the new model approved by the City Council in which children's arts education programs are the primary focus of programming at the Plaza will be the "School of Arts and Culture".

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS:

The Organization's temporarily restricted net assets at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Purpose Restrictions:		
Afterschool Program	\$ 50,000	\$ 25,000
Multicultural Arts Leadership Institute	35,000	-
Summer Day Camps	8,000	54,000
Pre-K Program	5,000	-
Consulting	-	15,000
School Programming	-	5,000
Scholarships	-	5,000
School Faculty Project Development	-	2,500
Time Restrictions:		
General Support for Future Periods	<u>112,500</u>	<u>138,750</u>
Total Temporarily Restricted Net Assets	<u>\$ 210,500</u>	<u>\$ 245,250</u>

See Note 14 for beginning net assets reclassification.

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - CONFLICT OF INTEREST POLICY:

Included among the Organization's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

NOTE 9 - CONTINGENCIES:

Grants and contracts awarded to School of Arts and Culture at MHP are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs.

Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

NOTE 10 - CONCENTRATIONS:

During the years ended June 30, 2013 and 2012, the Organization received 61% and 68% of its total support and revenue (including in-kind) directly from the City of San Jose. A reduction in awards of grants from the City could materially impact the services the Organization provides. In addition, the School of Arts and Culture at MHP maintains that it is unlikely that the City of San Jose would be able to rent the entire facility to any single tenant given the unique nature of the space and the community directive to maintain arts and cultural programming at the site.

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - RELATED PARTY TRANSACTIONS:

As discussed in Note 3 to the financial statements, 1stACT Silicon Valley's board of directors created a separate 501(c)(3) entity and directed 1stACT Silicon Valley's Chief Executive Officer to execute an operating and financial agreement with the City of San Jose to fulfill its incubation duties. During the incubation period, the new 501(c)(3) entity, School of Arts and Culture at MHP, is being led by 1stACT Silicon Valley's board of directors and Chief Executive Officer while a permanent board and staffing structure is being created. In May 2013, the School became fully independent from 1stACT Silicon Valley, establishing an independent board of directors for the School and appointed a new Executive Director. The financial statements of 1stACT Silicon Valley have not been consolidated in School of Arts and Culture at MHP's financial statements.

During the years ended June 30, 2013 and 2012, support and revenue totaling \$0 and \$405,652 and expenditures totaling \$0 and \$415,339 were received and disbursed by 1stACT Silicon Valley on behalf of School of Arts and Culture at MHP. The support, revenue and expenditures of 1stACT Silicon Valley are not included in the financial statements of School of Arts and Culture at MHP for the years ended June 30, 2013 and 2012. The balance due to 1stACT Silicon Valley as of June 30, 2013 and 2012 was \$540 and \$28,129, respectively.

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTION:

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

	<u>2013</u>
Purpose Restriction:	
Summer Day Camps	\$ 54,000
Afterschool Program	25,000
Consulting	15,000
School Programming	5,000
Scholarships	5,000
School Faculty Project Development	2,500
Time Restriction:	
General Operating	<u>138,750</u>
Total Net Assets Released from Restrictions	<u>\$ 245,250</u>

SCHOOL OF ARTS AND CULTURE AT MHP
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 13 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated facilities, supplies and expert services received are recorded as contributions. During the years ended June 30, 2013 and 2012 the following contributions in-kind were received:

	2013	2012
Facilities	\$ 729,594	\$ 730,194
Professional Services	16,000	50,699
Supplies	-	1,200
Total Contributions In-Kind	\$ 745,594	\$ 782,093

NOTE 14 - BEGINNING NET ASSETS RECLASSIFICATION:

During the year ended June 30, 2013, the School became aware that a time restricted grant was incorrectly included in unrestricted net assets as of June 30, 2012. Temporarily restricted net assets were understated by \$123,750 and unrestricted net assets were overstated by \$123,750 as of June 30, 2012.

Reclassifications related to net assets are summarized as follows:

	Unrestricted	Temporarily Restricted	Total
Net Assets, Beginning of Year, as Originally Reported	\$ 104,566	\$ 121,500	\$ 226,066
Reclassification	(123,750)	123,750	-
Net Assets, Beginning of Year, as Restated	\$ (19,184)	\$ 245,250	\$ 226,066

SECTION II
SUPPLEMENTARY INFORMATION

SCHOOL OF ARTS AND CULTURE AT MHP
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	PROGRAM SERVICES					SUPPORTING SERVICES			TOTALS	
	School Program	Events	Multicultural Arts Leadership Institute	Facility	Total	Management and General	Fundraising	Total	2013	2012
EXPENSES:										
Salaries and Wages	\$ 115,203	\$ 39,498	\$ 9,875	\$ 98,746	\$ 263,322	\$ 55,956	\$ 9,875	\$ 65,831	\$ 329,153	\$ 290,944
Employee Benefits	13,852	4,749	1,187	11,873	31,661	6,727	1,187	7,914	39,575	30,305
Payroll Taxes	9,833	3,371	843	8,429	22,476	4,776	843	5,619	28,095	23,064
Total Salaries and Benefits	138,888	47,618	11,905	119,048	317,459	67,459	11,905	79,364	396,823	344,313
Occupancy, In-Kind	298,550	166,056	21,888	218,731	705,225	21,888	2,481	24,369	729,594	730,194
Outside Services	156,397	80,639	25,472	23,883	286,391	4,932	30,595	35,527	321,918	229,148
Event Rental Expense	513	160,614	-	-	161,127	3,938	-	3,938	165,065	129,561
Utilities	54,420	18,659	4,665	46,646	124,390	26,433	4,665	31,098	155,488	131,089
Repairs and Maintenance	-	-	-	100,002	100,002	1,984	-	1,984	101,986	93,478
Professional Services, Including In-Kind	1,500	4,500	-	-	6,000	57,426	-	57,426	63,426	85,033
Supplies, Including In-Kind	22,155	-	-	16,298	38,453	3,960	51	4,011	42,464	26,915
Marketing / Recruiting Expense	8,218	15,422	100	-	23,740	-	406	406	24,146	8,632
Insurance	-	-	-	-	-	18,487	-	18,487	18,487	24,137
Travel	22	-	8,180	-	8,202	738	23	761	8,963	9,142
Conferences, Conventions and Meetings	599	785	6,576	66	8,026	271	88	359	8,385	22,899
Telephone	2,401	823	206	2,058	5,488	1,166	207	1,373	6,861	5,218
Printing and Publication	329	-	29	-	358	4,767	-	4,767	5,125	12,280
Bank Charges	-	-	-	-	-	2,901	-	2,901	2,901	7,910
Dues and Subscriptions	770	150	-	332	1,252	95	-	95	1,347	2,058
Taxes and Licenses	-	-	-	-	-	810	-	810	810	712
Other Operating Expenses	45	-	-	-	45	650	-	650	695	-
Postage and Shipping	188	-	-	-	188	85	180	265	453	158
Small Equipment Expenses	-	-	-	-	-	-	-	-	-	1,267
Grant Expense	-	-	-	-	-	-	-	-	-	3,000
Equipment Rental	-	-	-	-	-	-	-	-	-	10,725
Training	-	-	-	-	-	-	-	-	-	7,700
Administrative Fees	-	-	-	-	-	-	-	-	-	2,721
Total Expenses Before Depreciation	684,995	495,266	79,021	527,064	1,786,346	217,990	50,601	268,591	2,054,937	1,888,290
Depreciation	856	293	73	734	1,956	416	73	489	2,445	63
Total Functional Expenses	\$ 685,851	\$ 495,559	\$ 79,094	\$ 527,798	\$ 1,788,302	\$ 218,406	\$ 50,674	\$ 269,080	\$ 2,057,382	\$ 1,888,353
Percentage of Total	33.4 %	24.1 %	3.8 %	25.7 %	86.9 %	10.6 %	2.5 %	13.1 %	100.0 %	