

MEXICAN HERITAGE CORPORATION
June 30, 2008

INTRODUCTION

OBJECTIVES OF THE AUDIT

The audit had the following objectives:

- To render an opinion as to whether the financial statements of the Agency present fairly its financial position and results of operations in conformity with generally accepted accounting principles applied consistently.
- To assess the adequacy of the Agency's internal accounting control systems and procedures for financial accounting and reporting purposes.
- To recommend appropriate actions to correct any deficiencies noted in the course of the financial audit.

HIGHLIGHTS OF THE AUDIT

This section highlights significant findings and issues that have been identified by the audit and are discussed in the report.

- The auditor's report on the Agency's financial statements for the year ended June 30, 2008 is unqualified.
- No material weaknesses in the Agency's internal accounting control systems and procedures were noted.

Joe J Chaidez
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Mexican Heritage Corporation
1700 Alum Rock Avenue
San Jose, CA 95116

I have audited the accompanying Statement of Financial Position of Mexican Heritage Corporation (a California non-profit corporation) as of June 30, 2008 and June 30, 2007, and the related Statement of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph presents fairly, in all material respects, the financial position of Mexican Heritage Corporation as of June 30, 2008 and changes in net assets and cash flows for the year then ended in conformity with accounting principles Generally Accepted in the United States of America.

Joe J. Chaidez

Certified Public Accountant
May 12, 2009

MEXICAN HERITAGE CORPORATION
Statement of Financial Position
At June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents (Note 3)	\$ 105,066	\$ 78,308
Accounts Receivable	7,267	20,959
Grants Receivable	-0-	92,516
Other Current Assets	<u>65,738</u>	<u>47,733</u>
Total Current Assets	\$ 178,071	\$ 239,516
<u>PROPERTY AND EQUIPMENT</u>		
Land, Building & Equipment – Less Accum.	<u>900,796</u>	<u>255,241</u>
TOTAL ASSETS	<u>\$ 1,078,867</u>	<u>\$ 494,757</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable - Trade	135,435	280,631
Unearned Revenue	202,976	42,192
Accrued Expenditures (Note 6)	122,643	141,344
Current Portion of Long-term Debt	<u>198,236</u>	<u>50,000</u>
Total Current Liabilities	<u>659,290</u>	<u>514,167</u>
<u>LONG-TERM DEBT</u>		
Note Payable - net (Note 7)	<u>-0-</u>	<u>450,000</u>
Total Liabilities	<u>659,290</u>	<u>964,167</u>
<u>NET ASSETS</u>		
Unrestricted	419,577	<469,410>
Temporarily Restricted	-0-	-0-
Permanently Restricted	<u>-0-</u>	<u>-0-</u>
Total Net Assets	<u>419,577</u>	<u><469,410></u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,078,867</u>	<u>\$ 494,757</u>

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

MEXICAN HERITAGE CORPORATION
Statement of Activities
For The Fiscal Year Ended June 30, 2008 and 2007

	Temporarily			
	<u>Unrestricted</u>	<u>Restricted</u>	<u>2008</u>	<u>2007</u>
SUPPORT AND REVENUES				
Public Support:				
City of San Jose	771,495		771,495	831,102
City of San Jose – Forgiveness of Debt	\$ 301,765		\$ 301,765	\$ -0-
State Grants	710,592		710,592	220,647
Facility Rent	253,551		253,551	294,747
Corporate Sponsors/Contributions	568,420		568,420	434,611
Special Events Revenue - Mariachi	328,985		328,985	230,180
Donated Products and Services (Note 12)	1,949,915		1,949,915	2,200,381
Other Income	<u>287,330</u>	<u>-0-</u>	<u>287,330</u>	<u>79,791</u>
Total Support and Revenues	<u>\$ 5,172,053</u>	<u>-0-</u>	<u>\$ 5,172,053</u>	<u>\$ 4,291,459</u>
EXPENDITURES				
Total Program Services	3,036,256	-0-	3,036,256	2,938,156
Support Services:				
Management and General	1,151,421	-0-	1,151,421	1,191,305
Fundraising	<u>88,867</u>	<u>-0-</u>	<u>88,867</u>	<u>17,478</u>
Total Expenditures	<u>4,276,544</u>	<u>-0-</u>	<u>4,276,544</u>	<u>4,146,939</u>
Increase <Decrease> In Net Assets	895,509	-0-	895,509	144,520
Prior Period Adjustment	<6,522>	-0-	<6,522>	-0-
Net Assets at Beginning of Year - Deficit	<u><469,410></u>	<u>-0-</u>	<u><469,410></u>	<u><613,930></u>
Net Assets at End of Year	<u>\$ 419,577</u>	<u>\$ -0-</u>	<u>\$ 419,577</u>	<u>\$ <469,410></u>

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

MEXICAN HERITAGE CORPORATION
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 and 2007

<u>Cash Flows from Operating Activities:</u>	<u>2008</u>	<u>2007</u>
Change in Unrestricted Net Assets - Increase	\$ 895,509	\$ 144,520
Adjustments to Reconcile Net Assets to Net Cash Used by Operating Activities:		
Depreciation Expense	90,425	56,150
Increase <Decrease> in Accounts Receivable	<13,692>	<163>
Increase <Decrease> in Grants Receivable	92,516	<92,516>
Increase <Decrease> in Other Assets	<18,005>	<42,719>
Increase <Decrease> in Accounts Payable	145,196	<9,240>
Increase <Decrease> in Accrued Expenses	18,701	<94,403>
Increase <Decrease> in Other Payables	<u><143,148></u>	<u><76,949></u>
Net Cash (used) By Operating Activities	<u>1,067,502</u>	<u><115,320></u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of Fixed Assets - Net	<u><735,980></u>	<u><-0-></u>
<u>Cash Flows From Financing Activities</u>		
Proceeds from Borrowing	-0-	-0-
Payment/Forgiveness on Long-Term Debt	<u><301,764></u>	<u><50,000></u>
Net Cash Provided by Financing Activities	<u><301,764></u>	<u><50,000></u>
Decrease in Cash & Cash Equivalent	26,758	\$<165,320>
Cash and Cash Equivalent – Beginning of Year	<u>78,308</u>	<u>243,628</u>
Cash and Cash Equivalent – End of Year	<u>\$ 105,066</u>	<u>\$ 78,308</u>
<u>Supplemental Disclosure</u>		
Interest Paid During the Year Ended	<u>\$ 8,643</u>	<u>\$ -0-</u>

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

MEXICAN HERITAGE CORPORATION
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2008

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
<u>Expenditures</u>				
Salaries and Benefits	\$ 204,646	\$ 52,161	\$ 527,796	\$ 784,603
Catering	27,957	-0-	6,894	34,851
Contract Fees - Artists	280,454	-0-	-0-	280,454
Contractual Services	79,679	30,402	27,063	137,144
Production Costs	155,091	-0-	31,207	186,298
Rent	10,124	500	3,044	13,668
Insurance	3,243	-0-	24,209	27,452
Legal and Accounting Fees	6,144	-0-	77,094	83,238
Travel and Lodging	31,706	738	5,941	38,385
Utilities	-0-	-0-	97,224	97,224
Marketing and Ads	176,175	-0-	73,536	249,711
Donated Products and Services (Note12)	1,949,915	-0-	-0-	1,949,915
Maintenance and Repairs	3,788	-0-	78,652	82,440
Other Expenses	<u>107,334</u>	<u>5,066</u>	<u>108,336</u>	<u>220,736</u>
Total Before Depreciation	3,036,256	88,867	1,060,996	4,186,119
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>90,425</u>	<u>90,425</u>
Total Expenditures	<u>\$ 3,036,256</u>	<u>\$ 88,867</u>	<u>\$ 1,151,421</u>	<u>\$ 4,276,544</u>

See accompanying notes in the financial statements

MEXICAN HERITAGE CORPORATION
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 1. NATURE OF ACTIVITIES

The Mexican Heritage Corporation of San Jose, California (the Corporation) exists to affirm, celebrate and preserve the rich cultural heritage of San Jose, by promoting the arts, building community and advancing social and economic development.

The Corporation operates and manages the Mexican Heritage Plaza (the Facilities) to fulfill the following objectives:

- To provide the highest quality of artistic and cultural programming to visitors and residents of the City of San Jose.
- To make the Facilities available to the public.
- To develop and maintain a capable, experienced, professional staff to operate the Facilities in a first-class-manner.
- To provide outreach to public schools.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Financial Statements Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 17, the Agency 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. As permitted by this new statement the Agency has reclassified its financial statements to present the three classes of net assets as required. Also, the agency has elected to use classified statement of financial position

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements
For The Fiscal Year Ended June 30, 2008

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions

Contributions are reported in accordance with SFAS No. 116. 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 period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restrictions has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restrictions are 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.

Unrestricted Net Assets

The unrestricted net assets are utilized to record certain donations and pledges, fundraising income and other forms of unrestricted revenue and expenditures related to the general operations and fundraising effort of the organization. Fixed assets are generally financed by the unrestricted fund and are therefore classified as unrestricted. The fund balance is expected to be utilized for the next year's operations.

Temporarily Restricted Net Assets

The temporarily restricted net assets are utilized to record resources received that are temporarily restricted as to the use by the donor or grantor. When the restriction expires, the net assets of this fund are generally reclassified to unrestricted net assets.

Permanently Restricted Net Assets

The permanently restricted net assets are utilized to report resources, if any, restricted by the grant or to provide a permanent source of income or to be permanently held and not sold.

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements
For The Fiscal Year Ended June 30, 2008

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Revenue Recognition

The Agency recognizes support and revenue on the accrual basis of accounting. Grant Revenue and program fees are recognized as revenue in the period in which the services are provided.

Tax Exempt Status

Mexican Heritage Corporation is classified as a not-for-profit California corporation and has been granted exemption from federal and state income taxes under section 501 (c)(3) of the Internal Revenue Service code and Section 2371 (d) of the State of California Revenue and Taxation Code.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

It is the agency's policy to capitalize assets over \$ 2,500 or more whether purchased or donated. Fixed assets are recorded at cost or, in the case of donated property, at their estimated fair market value at date of receipt. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged to operating expenses as incurred.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements (Cont.)
For The Fiscal Year Ended June 30, 2008

Note 3. CASH AND EQUIVALENTS

The agency considers its cash on hand, cash in bank, and other short-term securities with terms to maturity of ninety days or less to be cash and cash equivalents.

General Checking	\$ 102,162
Reserve Accounts	845
Other Cash Accounts	<u>2,059</u>
Total Cash	<u>\$ 105,066</u>

Note 4. GRANTS RECEIVABLE

The Corporation received a contract (contract number CH-43-003) from the State of California, Department of Parks and Recreation in the amount of \$ 1,000,000. These funds are to be used for the acquisition, development, preservation or interpretation (capital improvements only), or any combination thereof, of buildings, structures, sites, places, or artifacts, or any combination thereof that preserve and demonstrate culturally significant aspects of California history. During the year ended June 30, 2008, approximately \$ 480,000 was used for this purpose. The grant will expire December 31, 2008 if the funds available are not used for the designated purpose. Due to the funds being conditional in nature and the uncertainty of the ultimate realization, the remaining funds available of approximately \$ 297,000 have not been recorded on the Corporation's financial statements. The remaining funds available under this grant will be recognized as revenue and expenditures when the underlying conditions are met.

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 5. PROPERTY AND EQUIPMENT

The Corporation accounts for impairment of assets under Financial Accounting Standards Board Statement 144, Accounting for the Impairment or Disposal of Long - Lived Assets (FAS 144), which requires the Corporation to review long - living assets for impairment when circumstances indicate that the carrying amount of an asset for recoverable based upon undiscounted future cash flows of an asset. If the carrying amount of an asset is not to be recoverable, a write-down to fair value is recorded.

The following is a summary of property and equipment at cost less accumulated depreciation:

Equipment, Office, Furniture	\$ 1,277,365
Gallery Improvements	<u>94,443</u>
Total Property and Equit.	1,371,808
Less Accumulated Depreciation	<u><471,012></u>
Property – Net	<u>\$ 900,796</u>

Note 6. ACCRUED EXPENSES

Wages Payable	\$ 14,993
Accrued Vacations Payable	25,094
Line of Credit – Wells Fargo Bank	<u>71,993</u>
Other Accruals	<u>10,564</u>
Totals	<u>\$ 122,643</u>

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 7. NOTE PAYABLE

The City of San Jose and the Corporation entered into an agreement where the City loaned \$650,000 at zero percent interest. The loan was made to assist the Corporation in the operation and the development of the Facilities based on a resolution of the Council of the City of San Jose, dated June 27, 2000.

The note payable matures over the next years as follows:

Year ending June 30:

2009	198,236
2010	-0-
2011	-0-
2012	-0-

Note 8. 401 (K) PLAN

Effective July 1, 2000, the Corporation implemented a 401 (K) plan. Eligible participants may contribute a percentage of compensation, up to a prescribed maximum, subject to the limitations of Internal Revenue Code. Eligible employees are those who are at least 21 years of age and have completed 6 months of service. The Plan provides for the Corporation to make matching contributions at the discretion of the Board of Directors. The Corporation made no contributions to the Plan for the years ended June 30, 2008, 2007, and 2006.

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements (Cont.)
For The Fiscal Year Ended June 30, 2008

Note 9. COMMITMENTS

The agency leases its facilities from the City of San Jose under a noncancellable operating lease agreement that expires during the year ending June 30, 2014.

Note 10. CONCENTRATION OF REVENUE SOURCES

Program Funding

Continued program funding is contingent upon the availability of funds from federal, state, and local funding sources and program performance. Periodic audits may be performed by granting agencies and certain costs may be questioned as not being reimbursable under the terms of the contracts. Such audits could lead to reimbursement to the granting agency. No accrual has been made for such contingency on the June 30, 2008 financial statement.

Note 11. MAINTENANCE AGREEMENT

The accordance with the "Operation and Maintenance Agreement" (the Agreement) entered into with the City of San Jose in March, 1996, the Corporation shall include in its annual budgets a minimum contribution of three percent (3%) of the budget to a cash flow reserve account (the Reserve). Contributions should be made into the Reserve account until it reaches a maximum of twenty-five percent (25%) of the annual operating budget.

The Corporation is not required to make any contributions to the Reserve in excess of \$1,000,000 for the first 15 years, \$2,000,000 for years 16 through 25, and \$3,000,000 for years 26 through 35. The phase-in of the cash flow reserve requirement is one percent (1%) for the first two years, two percent (2%) for the second two years and three percent (3%) annually thereafter. The Reserve shall be maintained in a separate account and the City of San Jose shall be notified within five (5) days when expenditures are made from the Reserve.

The management of the Corporation requested that the City of San Jose waive the Reserve requirements for the first two years of the Agreement. The City of San Jose approved the two year extension of the waiver. The Corporation has not maintained required Reserve fund. If the Reserve has been established for fiscal years ended June 30, 2007, and 2005, the amount applicable would be approximately \$365,000 and \$317,000, respectively. The City of San Jose is aware that this reserve fund has not been funded.

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements (Cont.)
For the Fiscal Year Ended June 30, 2008

Note 12. DONATED PRODUCTS AND SERVICES

Contributions are recognized in accordance with the provisions of SFAS No. 116. Donated equipment and donated goods are recorded at their estimated fair market value as of the date of the donation. Contributed services, which require specialized skills and which the Corporation would have had to pay for if they had not been donated, are recorded at the estimated fair market value at the time the services are rendered.

<u>Sponsor Name</u>	
City of San Jose (facility lease)	\$ 752,067
Alianza	35,000
A lianza	1,300
Comcast	40,000
CBS 5/CW	142,500
Coca Cola	2,095
El Observador Publication	115,015
Hotel Montgomery	342
KISS - FM 98.1	145,000
Hewlett Packard	72,724
Macy's	5,000
Milligan News	902
Mercury News/Nuevo Mundo	100,000
PennySaver	27,941
Safeway	5,000
See's Candy	650
Southwest Airlines	10,000
Valley Transpotation	40,000
Univision/Estereo Sol/Recuerdo	262,100
Univision/Telefutura	185,000
Vasquez Catering	<u>7,279</u>
	<u>\$1,949,915</u>

MEXICAN HERITAGE CORPORATION
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 13. GRANT REVENUE

City of San Jose	771,495
California Department of Parks	<u>448,300</u>
Total	<u>\$ 1,219,795</u>

Note 14. FORGIVENESS OF DEBT

During the year ended June 30, 2008 the City of San Jose forgave \$ 301,764 of a \$ 500,000 loan payable to the City.

Note 15. CONTINGENCIES

The agency has received a significant portion of its revenue from State and City of San Jose grants and contracts for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants and contracts, management does not anticipate any material questioned costs for the period ended June 30, 2008.