

MEXICAN HERITAGE CORPORATION  
June 30, 2009

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, 2009 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, 2009 and June 30, 2008, and the related Statement of Activities, Functional Expenses, and Cash Flow for the fiscal 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, 2009 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.

*JJ Chaidez*

Joe J. Chaidez  
Certified Public Accountant  
December 17, 2009

MEXICAN HERITAGE CORPORATION  
Statement of Financial Position  
At June 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents (Note 3)	\$ 26,315	\$ 105,066
Accounts Receivable	13,171	7,267
Grants Receivable	12,000	-0-
Other Current Assets	<u>91,714</u>	<u>65,738</u>
Total Current Assets	\$ 143,200	\$ 178,071
<u>PROPERTY AND EQUIPMENT</u>		
Land, Building & Equipment – Less Accum. Depreciation (Note 6)	<u>753,582</u>	<u>900,796</u>
TOTAL ASSETS	<u>\$ 896,782</u>	<u>\$ 1,078,867</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	84,743	135,435
Unearned Revenue	169,260	202,976
Accrued Expenditures (Note 6)	114,022	122,643
Current Portion of Long-term Debt (Note 7)	<u>-0-</u>	<u>198,236</u>
Total Liabilities	<u>368,025</u>	<u>659,290</u>
<u>NET ASSETS</u>		
Unrestricted	528,757	419,577
Temporarily Restricted	-0-	-0-
Permanently Restricted	<u>-0-</u>	<u>-0-</u>
Total Net Assets	<u>528,757</u>	<u>419,577</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 896,782</u>	<u>\$ 1,078,867</u>

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

MEXICAN HERITAGE CORPORATION  
Statement of Activities and Net Assets  
For The Fiscal Year Ended June 30, 2009 and 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009</u>	<u>2008</u>
<u>SUPPORT AND REVENUES</u>				
Public Support:				
City of San Jose	322,307		322,307	771,495
City of San Jose – Forgiveness of Debt	198,236		198,236	301,765
Federal / State Grants	20,888		20,888	710,592
Facility Rent	40,947		40,947	253,551
Corporate Sponsors/Contributions	309,385		309,385	420,389
Foundation Gifts / Contributions	176,500		176,500	111,518
Events Revenue	295,206		295,206	328,985
Individual Gifts / Contributions	50,825		50,825	36,513
Donated Products and Services (Note 12)	995,162		995,162	1,949,915
Other Income	<u>145,828</u>	<u>-0-</u>	<u>145,828</u>	<u>287,330</u>
Total Support and Revenues	<u>\$ 2,555,284</u>	<u>-0-</u>	<u>\$ 2,555,284</u>	<u>\$ 5,172,053</u>
<u>EXPENDITURES</u>				
Total Program Services	1,893,461	-0-	1,893,461	3,036,256
Support Services:				
Management and General	560,477	-0-	560,477	1,151,421
Fundraising	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>88,867</u>
Total Expenditures	<u>2,453,938</u>	<u>-0-</u>	<u>2,453,938</u>	<u>4,276,544</u>
Increase <Decrease> In Net Assets	101,346	-0-	101,346	895,509
Prior Period Adjustment	7,834	-0-	7,834	<6,522>
Net Assets at Beginning of Year	<u>419,577</u>	<u>-0-</u>	<u>419,577</u>	<u>&lt;469,410&gt;</u>
Net Assets at End of Year	<u>\$528,757</u>	<u>\$ -0-</u>	<u>\$528,757</u>	<u>\$ 419,577</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, 2009 and 2008

<u>Cash Flows from Operating Activities:</u>	<u>2009</u>	<u>2008</u>
Change in Unrestricted Net Assets - Increase	\$ 109,180	\$ 895,509
Adjustments to Reconcile Net Assets to Net Cash Used by Operating Activities:		
Depreciation Expense	151,914	90,425
Increase <Decrease> in Accounts Receivable	<17,903>	<13,692>
Increase <Decrease> in Other Assets	<25,975>	<18,005>
Increase <Decrease> in Accounts Payable	<50,692>	145,196
Increase <Decrease> in Accrued Expenses	<9,626>	18,701
Increase <Decrease> in Other Payables	<u>&lt;33,719&gt;</u>	<u>&lt;143,148&gt;</u>
Net Cash (used) By Operating Activities	<u>123,179</u>	<u>1,067,502</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of Fixed Assets - Net	<u>&lt;4,700&gt;</u>	<u>&lt;735,980&gt;</u>
<u>Cash Flows From Financing Activities</u>		
Proceeds from Borrowing	-0-	-0-
Payment/Forgiveness on Long-Term Debt	<u>&lt;197,230&gt;</u>	<u>&lt;301,764&gt;</u>
Net Cash used by Financing Activities	<u>&lt;197,230&gt;</u>	<u>&lt;301,764&gt;</u>
Decrease in Cash & Cash Equivalent	<78,751>	26,758
Cash and Cash Equivalent – Beginning of Year	<u>105,066</u>	<u>78,308</u>
Cash and Cash Equivalent – End of Year	<u>\$ 26,315</u>	<u>\$ 105,066</u>
<u>Supplemental Disclosure</u>		
Interest Paid During the Year Ended	<u>\$ 5,661</u>	<u>\$ 8,643</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, 2009 and 2008

	<u>Program Services</u>	<u>Fund-raising</u>	<u>Management and General</u>	<u>2009</u>	<u>2008</u>
<u>Expenditures</u>					
Salaries and Benefits	\$ 86,063	\$ -0-	\$ 225,171	\$ 311,234	\$ 784,603
Catering	14,232	-0-	-0-	14,232	34,851
Contract Fees - Artists	283,665	-0-	-0-	283,665	280,454
Contractual Services	45,793	-0-	11,959	57,752	137,144
Production Costs	156,502	-0-	-0-	156,502	186,298
Rent	708	-0-	7,862	8,570	13,668
Insurance	-0-	-0-	21,596	21,596	27,452
Legal and Accounting Fees	-0-	-0-	73,644	73,644	83,238
Travel and Lodging	106,353	-0-	1,796	108,149	38,385
Utilities	3,953	-0-	-0-	3,953	97,224
Marketing and Ads	117,636	-0-	7,262	124,898	249,711
Donated Products and Services (Note12)	995,162	-0-	-0-	995,162	1,949,915
Maintenance and Repairs	1,645	-0-	11,530	13,175	82,440
Other Expenses	<u>81,749</u>	<u>-0-</u>	<u>47,743</u>	<u>129,492</u>	<u>220,736</u>
Total Before Depreciation	1,893,461	-0-	408,563	2,302,024	4,186,119
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>151,914</u>	<u>151,914</u>	<u>90,425</u>
Total Expenditures	<u>\$ 1,893,461</u>	<u>\$ -0-</u>	<u>\$ 560,477</u>	<u>\$ 2,453,938</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, 2009

Note 1. NATURE OF ACTIVITIES

The Mexican Heritage Corporation (MHC) serves the Silicon Valley and Northern California by presenting and advancing Mexican and multicultural performing arts and arts education. MHC accomplishes this through:

- 1) The San Jose Mariachi and Mexican Heritage Festival and its related concerts and educational workshops.
- 2) Mariachi and ballet folklórico education programs for children and adults.
- 3) Presenting Los Lupeños de San Jose, Northern California's premier ballet folklorico company, in concert.
- 4) Special events: Visual arts exhibitions, community festivals and concerts, workshops, symposiums, lecture/demonstrations, special receptions, and master classes.

MHC has been presenting, producing, promoting, and educating students and the public about the dance, music and visual arts traditions of Mexico for over twenty-five years, creating opportunities for individuals and communities to celebrate, share, and sustain the vitality of Mexico's ethnic and traditional cultural arts and multicultural arts within the region. MHC's work promotes the importance of cultural heritage for strengthening ethnic identity and community and creating successful futures for our children.

MHC is a resident arts partner of the Mexican Heritage Plaza, a 200,000 square-foot cultural center with state of the art theatrical venues, a Smithsonian-affiliated gallery space, and luscious thematic gardens that serve as a regional resource for cultural programming and education. Built in association with the City of San José and the San José Redevelopment Agency, it is one of the largest Latino cultural centers in the nation.

The mission of the Mexican Heritage Corporation is to affirm, celebrate and preserve the rich cultural heritage of the Mexican community and showcase multicultural arts within the region.

MEXICAN HERITAGE CORPORATION  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

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, 2009

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 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 benefitted. 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, 2009

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Note 3. CASH AND CASH 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	\$ 25,723
Reserve and other Accounts	<u>592</u>
Total Cash	<u>\$ 26,315</u>

Note 4. GRANT REVENUE- STATE OF CALIFORNIA

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 were 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. As of June 30, 2009, the total amounts of the grant had been received and expended.

Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009

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 at June 30, 2009:

Office Equipment, Furniture	\$ 1,282,065
Gallery Improvements	<u>94,443</u>
Total Property and Equipment	1,376,508
Less Accumulated Depreciation	<u>&lt;622,926&gt;</u>
Property – Net	<u>\$ 753,582</u>

Note 6. ACCRUED EXPENSES

Wages Payable	\$ 12,286
Accrued Vacations Payable	16,236
Line of Credit – Wells Fargo Bank	73,000
Other Accruals	<u>12,500</u>
Totals	<u>\$ 114,022</u>

Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009

Note 7. NOTE PAYABLE- CITY OF SAN JOSE

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. As of June 30, 2009, the loan had been paid in full.

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, 2009, 2008, 2007, and 2006. Subsequent to June 30, 2009, the plan was terminated.

Note 9. LEASE COMMITMENT

The agency leases its facility from the City of San Jose under a transition agreement which is a month-to month agreement.

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 contingency accrual has been made for such contingency on the June 30, 2009 financial statement.

MEXICAN HERITAGE CORPORATION

Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009

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. This agreement was terminated in 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.

Sponsor Name

Alianza	\$ 35,000
Comcast	50,000
CBS 5/CW	142,500
El Mensajero	9,775
El Observador Publication	134,637
KRZZ	38,500
KISS - FM 98.1	78,500
Mercury News/Nuevo Mundo	100,000
Safeway	5,000
Southwest Airlines	10,000
Univision/Estereo Sol/Recuerdo	151,250
Univision/Telefutura	200,000
Valley Transportation	<u>40,000</u>
	<u>\$995,162</u>

MEXICAN HERITAGE CORPORATION  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009

Note 13. FORGIVENESS OF DEBT

During the year ended June 30, 2009 the City of San Jose forgave \$ 198,236 of a \$ 500,000 loan payable to the City. As of June 30, 2009 the Loan had been forgiven in full.

Note 14. CONTINGENCIES

The agency has received a significant portion of its revenue the City of San Jose grants and contracts for specific purposes that are subject to review and audit by the grantor agency. 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, 2009.

Note 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2009 MHC:

1. Entered into an MOU with Northern California Public Broadcasting, Inc. to collaborate on the production of a multi-part documentary series called Both Sides Now.
2. Entered into an MOU with 21 Sports and Entertainment Marketing Group, Inc. to provide sponsorship sales and consulting services in regard to official events taking place in the United States celebrating the Bicentennial of Mexico.
3. Entered into a MOU with the Mexican American Legal Defense and Education Fund to produce a national media campaign and concert tour promoting the positive contributions of Latinos to our civic culture and re-calibrating the national narrative about Latinos by presenting the facts on our community's contribution to the national economy, culture, and heritage.
4. Agreed in principle to create a joint venture with Urban Market Partners LLC to revitalize San Jose's historic San Pedro Square district as the primary content partner, with arts, education and entertainment programming.

MEXICAN HERITAGE CORPORATION  
For the Fiscal Year Ended June 30, 2009

CERTIFICATION OF OFFICERS

We, as officers of Mexican Heritage Corporation, hereby certify that we have examined the financial statements and accompanying data of Mexican Heritage Corporation as of and for the year ended, June 30, 2009, and, to the best of our knowledge and belief, these financial statements are complete and accurate.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date

MEXICAN HERITAGE CORPORATION  
For The Fiscal Year Ended June 30, 2009

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MEXICAN HERITAGE CORPORATION  
(A California Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS

For The Fiscal Year Ended  
June 30, 2009