

Mexican Heritage Corporation

Compiled Financial Statements

JUNE 30, 2012

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors of
Mexican Heritage Corporation:

We have compiled the accompanying statement of financial position of Mexican Heritage Corporation as of June 30, 2012, and the related statements of activities and cash flows for the year then ended.

We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

As discussed in the footnotes, certain conditions indicate that the Organization may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Organization be unable to continue as a going concern.



Pleasanton, California
July 10, 2013

Mexican Heritage Corporation
Statement of Financial Position
June 30, 2012

	Unrestricted	Temporarily Restricted	Total 2012
ASSETS			
Cash	(\$32,600)	\$32,600	\$0
Accounts receivable	8,530	3,000	11,530
Prepaid expenses & deposits	6,840		6,840
TOTAL CURRENT ASSETS	(17,230)	35,600	18,370
Property & equipment, net	1,405		1,405
TOTAL LONG TERM ASSETS	1,405		1,405
TOTAL ASSETS	(\$15,825)	\$35,600	\$19,775
LIABILITIES			
Overdrawn cash	\$4,577		\$4,577
Accounts payable	148,112		148,112
Accrued compensation	14,692		14,692
Line of credit	192,625		192,625
TOTAL LIABILITIES	360,006		360,006
NET ASSETS			
Unrestricted	(375,831)		(375,831)
Temporarily restricted		\$35,600	35,600
TOTAL NET ASSETS	(375,831)	35,600	(340,231)
TOTAL LIABILITIES and NET ASSETS	(\$15,825)	\$35,600	\$19,775

The accompanying notes are an integral part of this financial statement.

Mexican Heritage Corporation
Statement of Activities
For The Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total 2012
Support and Revenue			
Contributions	\$23,130		\$23,130
Grants & awards	377,869	\$29,000	406,869
In-kind donations	1,078,126		1,078,126
Program fees	47,568		47,568
Special events	170,853		170,853
Net assets released from restrictions			
Expiration of time & purpose restrictions	45,000	(45,000)	
Total support & revenue	1,742,546	(16,000)	1,726,546
Expenses			
Program services			
Arts Activities	1,628,694		1,628,694
Supporting services			
Management & general	18,762		18,762
Fundraising	37,948		37,948
Total Expenses	1,685,404		1,685,404
INCREASE (DECREASE) IN NET ASSETS	57,142	(16,000)	41,142
NET ASSETS AT BEGINNING OF YEAR	(432,973)	\$51,600	(\$381,373)
NET ASSETS AT END OF YEAR	(\$375,831)	\$35,600	(\$340,231)

See accompanying notes and accountants report.

Mexican Heritage Corporation
Statement of Functional Expenses
For The Year Ended June 30, 2012

	Program Services	Supporting Services			2012
	Arts Activities	Management & General	Fund Raising	Total	Total
Salaries	\$35,578	\$367	\$734	\$1,100	\$36,678
Payroll taxes	2,761	28	57	85	2,846
Fringe benefits	577	6	12	18	594
Total compensation	38,916	401	802	1,204	40,119
Advertising / outreach	1,095,851				1,095,851
Artist commissions	162,494				162,494
Artist lodging	25,624				25,624
Choreography	2,200				2,200
Dues, fees & other charges	5,078	2,297		2,297	7,375
Equipment lease	2,265	827	443	1,269	3,535
Insurance	11,430	118	236	353	11,783
Interest expense		667		667	667
Musicians	8,200				8,200
Outside services	127,665	240	480	720	128,385
Postage			1,940	1,940	1,940
Printing	7,509		1,260	1,260	8,768
Production costs	68,269				68,269
Professional services		12,307	650	12,957	12,957
Rent	7,353	76	152	227	7,580
Special events			31,618	31,618	31,618
Stage management	24,200				24,200
Supplies	2,881	1,645		1,645	4,526
Telephone / internet	11,476	118	237	355	11,831
Travel	20,861				20,861
Total before depreciation	1,622,272	18,696	37,816	56,512	1,678,783
Depreciation	6,422	66	132	199	6,621
Total Expenses	\$1,628,694	\$18,762	\$37,948	\$56,710	\$1,685,404

See accompanying notes and accountants report.

Mexican Heritage Corporation
Statement of Cash Flows
For The Year Ended June 30, 2012

	<u>Total 2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase/(decrease) in net assets	\$41,142
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation expense	6,621
(Increase) decrease in operating assets	
Accounts receivable	6,470
Prepaid expenses and deposits	47,589
Increase (decrease) in operating liabilities	
Overdrawn cash	4,577
Accounts payable	(21,209)
Accrued compensation	1
Deferred revenue	(70,000)
Line of credit	(23,000)
Proceeds received from contributions restricted for long term purposes	<u> </u>
NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES	<u>(7,809)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(7,809)
BEGINNING CASH AND CASH EQUIVALENTS	<u>7,809</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>(\$0)</u></u>
 Supplemental Information:	
Cash paid for: Interest Expense	<u><u>\$667</u></u>

See accompanying notes and accountants report.

NOTE A - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Summary of Activities

Mexican Heritage Corporation (the Organization) is a 501(c)(3) non-profit community based content company – developing, producing and presenting cultural events, and arts and education programs for multiple platforms that celebrate Mexico's culture and multicultural arts in Silicon Valley. The Organization creates content through live events, new media and traditional broadcast platforms.

The Organization has been presenting, producing, promoting, and educating students and the public about the dance, music and visual arts traditions of Mexico for over 25 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. The Organization's work promotes the importance of creating and distributing positive, accurate and relevant content about U.S. Latinos to balance the negative stereotypes and inaccurate characterizations about the contributions of Latinos to the American Dream. The Organization's programs emphasize cultural heritage to strengthen community understanding of diverse populations and to help build educational opportunity for our children. While Mexican Heritage Corporation's programs celebrate Mexico's heritage and culture, and the majority community it serves is of Mexican or Latino ethnicity, the Organization's audience and student population is also increasingly comprised of the diverse population in Silicon Valley.

Programs

The Organization's content and education programs use the arts to create high impact content that balances the local, regional and national conversation about Latinos to include information and portrayals of Latinos that is positive, accurate and informative. The Organization's content development encompasses original concert, musical and theatrical programming, new media and development of content for long-format broadcast. The Organization's education programs provide at risk children, youth and marginalized Latino and diverse populations with culturally relevant programs to help Latino pre teens and teens close the academic achievement gap and skills to develop school readiness and to successfully engage in American educational and cultural environments.

The Organization's programs consist of the following three main elements: San José Mariachi and Mexican Heritage Festival - An annual music, heritage and arts festival encompassing music, storytelling, dance, community conversations, theatre, film screenings and educational workshops. The Festival serves as both a platform and incubator of content about, by and for U.S. Latinos. Mariachi Music Youth Education - A standards based mariachi music education and Pee Wee Mariachi early childhood arts program modeled after the Festival. Presenting Los Lupeños de San Jose - Presenting Northern California's premier ballet folklorico company, in concert.

Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with Accounting Standards for Not-for-profit Organizations. The Organization reports 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. In addition, the Organization is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets all unrestricted revenue. Temporary restricted net assets include those assets, which are subject to a donor restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those assets, subject to non-expiring donor restrictions, such as endowments. The Organization currently has no permanently restricted net assets.

Mexican Heritage Corporation
Notes to Financial Statements
June 30, 2012

Income Taxes

The Organization is not classified as a private foundation and is exempt from federal and state income taxes under section 501(c)3 of the Internal Revenue Code and Section 23701(d) of the California Code. The Organization is considered a publicly supported organization. The Financial Accounting Standards Boards (FASB) interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, subsequently included in the FASB codification as ASC 740 prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected to be taken on a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies and does not believe any material uncertain tax positions exist.

Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash accounts and highly liquid investment accounts, regardless of maturity, to be cash equivalents.

Contributions In-kind

Donations are recorded at their estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered.

Contributions

The Organization accounts for contributions received and contributions made in accordance with Accounting Standards for Not-for-profit Organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and, or nature of any donor restrictions. Restricted contributions are reported as an increase in temporarily or permanently restricted net assets and are reclassified from restricted net assets to unrestricted net assets when donor requirements are met.

Property, Equipment and Depreciation

Property and equipment is recorded at cost when purchased or at estimated fair market value if donated. It is the Organization's policy to capitalize items that have a life greater than two years and a cost of at least \$500. Depreciation is computed using the straight-line method over the asset's estimated useful life, which ranges from three to seven years. Depreciation is charged to the activity benefiting from the use of the facilities or equipment.

Revenue Recognition

The Organization recognizes revenue on the accrual basis of accounting. Program fees and admissions are recognized as revenue in the period in which the service is provided. Grants and awards are recognized as revenue in the period in which they are awarded. Grants and awards are recorded as an increase in restricted revenue if restricted by the donor and are reclassified to unrestricted revenue when donor conditions are fulfilled. The Organization's primary revenue sources are grants and awards from local governments, foundations and corporations and donations from individuals.

Allowance for Doubtful Accounts

The Organization does not maintain an allowance for doubtful accounts on grants and awards as these funding sources are likely to be received. For the year ended June 30, 2012 an allowance on program fees receivable was not considered necessary. Balances still outstanding after management has used reasonable collection efforts are written off to bad debts expense.

Mexican Heritage Corporation
Notes to Financial Statements
June 30, 2012

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 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 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.

The carrying amounts reported in the statement of financial position for the following items approximates fair value because of the short maturity value of these instruments: cash and cash equivalents, grants receivable, other receivables, prepaid expenses, accounts payable, and accrued liabilities. The carrying amounts reported in the statement of financial position for the line of credit approximates fair value because of the market value interest rates that these loans bear. The carrying amount of in-kind donations received are valued at Level 2 inputs, as they include quoted prices for similar assets in active markets.

Collections

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the absence or existence and nature of donor-imposed restrictions.

Indirect Expense Allocations

The costs of operating the Organization's program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited as estimated by management.

NOTE B –ACCOUNTS RECEIVABLE

Accounts receivable consist of awards and donations. At June 30, 2012 grants & awards receivable are current.

NOTE C – PROPERTY AND EQUIPMENT

At June 30, 2012 Property and Equipment and related accumulated depreciation is as follows:

Equipment & Furniture	<u>\$173,558</u>
Subtotal	\$173,558
Accumulated depreciation	<u>(\$172,153)</u>
Net book value	<u><u>\$1,405</u></u>

For the year ending June 30, 2012 depreciation expense is \$6,621.

Mexican Heritage Corporation
Notes to Financial Statements
June 30, 2012

NOTE D – COLLECTIONS

Mexican Heritage Corporation has a collection of posters, costumes, musical instruments and photographs of value, that have been donated to or purchased by the Organization. The collection is a tangible example of the Organization's execution of its charitable mission to preserve the heritage of Mexican Americans in the United States. A portion of the overall collection is on display at the Mexican Heritage Plaza and at the Organization's office headquarters. A significant portion is in storage due to lack of display space. The Organization does not currently have a staff curator; care and inventory of the collection is taken care of by staff on an as needed basis. Contributions or purchases of items for the collection are not reflected in the accompanying financial statements since the Organization does not capitalize collections.

NOTE E – CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Organization are subject to the funding agencies' criteria and regulations under which expenditures may be charged against and are subject to audit under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria governing them. In such cases, the Organization could be held responsible for repayments to the funding agency or be subject to reductions of future funding. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

NOTE F – OPERATING LEASES

The Organization entered into a sixteen month non-cancelable facility lease agreement for office space in November 2012. The facility lease agreement calls for monthly rents of \$1,096. For the year ending June 30, 2012 rent expense is \$7,580. Future minimum principle payments due are \$8,220 for the year ending June 30, 2013.

NOTE G – LINE OF CREDIT

The Organization has a \$20,000 revolving line of credit. Advances are payable on demand and bear interest at 5.5%. The credit line is secured by assets of the entity and matures April 8, 2013. At June 30, 2012 the outstanding balance is \$192,625.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2012 the Organization's temporary restricted funds consist of the following activity:

<u>Donor Restriction</u>	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Mariachi Festival	\$51,600	\$29,000	(\$45,000)	\$35,600

NOTE I – CONTRIBUTIONS IN-KIND

For the year ended June 30, 2012 the Organization recognized the following in-kind donations:

Theater Lease, Production Costs	\$40,000
Advertising	<u>\$1,028,126</u>
Total In-kind Donations	<u><u>\$1,068,126</u></u>

Mexican Heritage Corporation
Notes to Financial Statements
June 30, 2012

NOTE J – SPECIAL EVENTS

During the year ended June 30, 2012 the Organization participated in the following special event, Art Auction:

	<u>Event</u>
Donations & Sponsorships	\$5,530
Revenue (tickets sales, auction, etc)	<u>\$165,323</u>
Total Revenue	<u>\$170,853</u>

NOTE K – GOING CONCERN

Certain conditions indicate that the Organization may be unable to continue as a going concern. These conditions include, and are not limited to, the following: negative net assets, liabilities exceed assets, negative unrestricted net assets and overdrawn cash balances. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Organization be unable to continue as a going concern.

Management has been working to reverse this trend and continues to reverse this trend. Notwithstanding the challenges of a severe economic climate, acclaim and attendance for the Organization's programs – its signature festival event, music education programs, dance education programs and arts social justice advocacy, continues to grow. Management continues to aggressively manage costs and is experiencing a gradual recovery, while sustaining its mission to deliver creative and innovative arts programming. Management has reinstated key paid staff positions, has established a new strategic planning advisory board led by experienced Latino and arts executives, and has recruited experienced arts and education professionals to its Board of Trustees and achieved support from key stakeholders such as the National Endowment for the Arts, San Jose Unified School District, the TomKat Charitable Trust, and the Hewlett Foundation. Management continues to see new funds from various sources. In addition, management has established a new program partnership to share expenses with the Cashion Cultural Legacy for the program services of Los Lupenos de San Jose.

NOTE L – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end, June 30, 2012, through January 17, 2013, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as follows:

During the year ending June 30, 2013 management obtained three unsecured loans, totaling \$17,000, from board members and the Executive Director. These loans have simple interest bearing 4% per annum and are due to the respective lenders on March 31, 2013. The outstanding balance remains as of the date of this compilation report.