

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2010 with Comparative Totals
for the Year Ended June 30, 2009

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

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EMERITUS

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

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mexican Heritage Corporation
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the accompanying statement of financial position of Mexican Heritage Corporation (a California nonprofit public benefit corporation) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Mexican Heritage Corporation's financial statements for the year ended June 30, 2009. The financial statements of Mexican Heritage Corporation for the year ended June 30, 2009, were audited by other auditors whose report dated December 17, 2009, expressed an unqualified opinion on those financial statements. As described in Note 17 to the financial statements, the Organization has restated its June 30, 2009 financial statements during the current year in conformity with accounting principles generally accepted in the United States of America.

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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mexican Heritage Corporation as of June 30, 2010, 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.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
June 21, 2011

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2010 with Comparative Totals as of June 30, 2009

	2010	(Restated) 2009
	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 66,029	\$ 26,315
Grants Receivable	114,360	25,123
Other Receivables	448	48
Prepaid Expenses	39,489	90,714
Deposits	-	1,000
Total Current Assets	<u>220,326</u>	<u>143,200</u>
PROPERTY AND EQUIPMENT, NET	<u>540,613</u>	<u>753,582</u>
OTHER ASSETS:		
Collections (Notes 3 and 5)	-	-
TOTAL ASSETS	<u>\$ 760,939</u>	<u>\$ 896,782</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Line of Credit	\$ 150,000	\$ 73,000
Accounts Payable	48,341	97,242
Accrued Liabilities	106,247	28,522
Deferred Revenue	2,616	4,320
Loan Payable	50,043	-
Total Current Liabilities	<u>357,247</u>	<u>203,084</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Note Payable - Related Party	<u>30,000</u>	<u>-</u>
Total Liabilities	<u>387,247</u>	<u>203,084</u>
NET ASSETS:		
Unrestricted Net Assets	271,192	528,758
Temporarily Restricted Net Assets	<u>102,500</u>	<u>164,940</u>
Total Net Assets	<u>373,692</u>	<u>693,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 760,939</u>	<u>\$ 896,782</u>

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

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	2010			(Restated) 2009
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Contributions In-Kind	\$ 1,117,000	\$ -	\$ 1,117,000	\$ 1,036,565
Grants and Contributions	367,925	102,500	470,425	528,950
Events Revenue	452,302	-	452,302	281,091
Government Grants	268,326	-	268,326	345,195
Forgiveness of Debt	-	-	-	198,236
Program Service Fees	66,896	-	66,896	120,221
Miscellaneous Income	294	-	294	34,971
Rental Income	-	-	-	40,947
Special Events	-	-	-	(10,910)
Loss on Disposal of Property Equipment	(11,239)	-	(11,239)	-
Total Support and Revenue	2,261,504	102,500	2,364,004	2,575,266
Net Assets Released from Restrictions	164,940	(164,940)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	2,426,444	(62,440)	2,364,004	2,575,266
EXPENSES:				
Program Services	2,381,510	-	2,381,510	2,083,927
Supporting Services:				
Management and General	190,701	-	190,701	248,030
Fundraising	111,799	-	111,799	143,022
Total Supporting Services	302,500	-	302,500	391,052
Total Expenses	2,684,010	-	2,684,010	2,474,979
CHANGE IN NET ASSETS	(257,566)	(62,440)	(320,006)	100,287
NET ASSETS, Beginning of Year	528,758	-	528,758	419,577
Prior Period Adjustment (Note 17)	-	164,940	164,940	173,834
NET ASSETS, End of Year	<u>\$ 271,192</u>	<u>\$ 102,500</u>	<u>\$ 373,692</u>	<u>\$ 693,698</u>

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

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL	
		Management and	Fundraising	Total	2010	(Restated) 2009
		General				
EXPENSES:						
Salaries and Wages	\$ 234,569	\$ 46,664	\$ 56,577	\$ 103,241	\$ 337,810	\$ 275,189
Payroll Taxes	21,816	4,368	5,332	9,700	31,516	21,422
Employee Benefits	11,736	2,350	2,868	5,218	16,954	14,622
Total Salaries and Related Expenses	268,121	53,382	64,777	118,159	386,280	311,233
Marketing and Advertising, Including In-Kind	1,175,146	-	-	-	1,175,146	1,092,910
Production Costs	257,008	-	-	-	257,008	165,751
Contract Fees - Artists	203,265	-	-	-	203,265	210,235
Contract Services	139,430	19,083	-	19,083	158,513	136,163
Travel and Lodging, Including In-Kind	58,141	10,691	-	10,691	68,832	118,149
Rent, Including In-Kind	60,418	23,692	4,369	28,061	88,479	89,372
Office Expenses	26,223	5,250	6,409	11,659	37,882	55,491
Legal and Professional Fees, Including In-Kind	-	34,760	-	34,760	34,760	73,644
Program Supplies, Including In-Kind	23,933	-	-	-	23,933	8,269
Insurance	7,211	2,089	1,762	3,851	11,062	21,596
Permits and Licenses	7,536	412	-	412	7,948	3,665
Interest	4,944	990	1,208	2,198	7,142	5,661
Cost of Goods Sold	6,629	-	-	-	6,629	414
Catering	6,567	-	-	-	6,567	14,232
Dues and Memberships	-	3,779	-	3,779	3,779	459
Bank Fees	1,651	331	403	734	2,385	1,452
Miscellaneous	907	930	222	1,152	2,059	10,525
Maintenance and Repairs	800	-	-	-	800	3,844
Conferences, Conventions and Meetings	354	71	87	158	512	-
Total Expenses Before Depreciation	2,248,284	155,460	79,237	234,697	2,482,981	2,323,065
Depreciation	133,226	35,241	32,562	67,803	201,029	151,914
Total Functional Expenses	\$ 2,381,510	\$ 190,701	\$ 111,799	\$ 302,500	\$ 2,684,010	\$ 2,474,979
Percentage of Total	88.7 %	7.1 %	4.2 %	11.3 %	100.0 %	

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

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	2010	(Restated) 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (320,006)	\$ 100,287
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation	201,029	151,914
Forgiveness of Debt	-	(198,236)
Loss on Disposal of Property Equipment	11,239	-
Donated Piano	-	(4,700)
(Increase) Decrease in Assets:		
Grants Receivable	(89,237)	(25,123)
Other Receivables	(400)	7,220
Prepaid Expenses	51,925	(24,976)
Deposits	1,000	(1,000)
Increase (Decrease) in Liabilities:		
Accounts Payable	(48,901)	(38,492)
Accrued Liabilities	77,726	(94,122)
Deferred Revenue	(1,704)	(24,523)
Net Cash Used by Operating Activities	(117,329)	(151,751)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Line of Credit	127,000	73,000
Payment on Line of Credit	(50,000)	-
Proceeds from Loan Payable	50,043	-
Proceeds from Note Payable - Related Party	30,000	-
Net Cash Provided by Financing Activities	157,043	73,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,714	(78,751)
CASH AND CASH EQUIVALENTS, Beginning of Year	26,315	105,066
CASH AND CASH EQUIVALENTS, End of Year	\$ 66,029	\$ 26,315
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	\$ 7,142	\$ 5,661

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

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Mexican Heritage Corporation ("MHC" or 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.

MHC 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. MHC'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.

MHC annually reaches over 75,000 with its arts and education programming and hundreds of thousands through online arts and education content and community outreach through its television and newspaper media partners, all of whom provide time and space to support Mexican Heritage Corporation's programming. 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.

NOTE 2 - PROGRAM SERVICES:

Mexican Heritage Corporation 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. MHC'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.

MHC content development encompasses original concert, musical and theatrical programming, new media and development of content for long-format broadcast. Financial support for MHC's program delivery and content activities comes from the nation's most respected and prestigious arts funders including the National Endowment for the Arts, the California Arts Council, the Hewlett Foundation, the Castellano Family Foundation and the foundations of the nation's top corporations including Bank of America, Wells Fargo Bank, Union Bank, and AT&T. MHC's media partners include the nation's top Spanish language communications and entertainment companies including Univision and Telemundo as well as general market media companies including all three major networks (CBS, NBC and ABC), non-commercial broadcasters such as KQED and KPFA and major print publications such as Bay Area News Group and the ImpreMedia news group.

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Mexican Heritage Corporation's programs consist of the following three main elements:

San José Mariachi and Mexican Heritage Festival - An annual music, heritage and arts festival that encompasses 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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Mexican Heritage Corporation 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 reports its financial position and operating activities in 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.

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.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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, accrued liabilities and deferred revenue.

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The carrying amounts reported in the statement of financial position for the following items approximates fair value because of the market value interest rates that these loans bear: line of credit, loan payable and note payable - related party.

Grants Receivable - 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. All unconditional promises to give are receivable in less than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$2,500 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 shorter of estimated useful lives or lease term of the assets, which range from 3 to 5 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

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.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2010 and 2009, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2010 and 2009 was \$12,505 and \$16,236, 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. Event revenue is recognized in the period in which the related event occurs. Deferred revenue includes amounts received for tickets to events, which will be presented in future periods.

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. Temporarily 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.

MEXICAN HERITAGE CORPORATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value 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. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. These contributed services are not reflected in the financial statements.

Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are based on salary expense.

Income Taxes - Mexican Heritage Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) 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 - Effective July 1, 2009 the Organization implemented the new accounting requirements associated with uncertainty in income taxes. The new accounting requirements under 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 for the years ended June 30, 2009, 2008 and 2007 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the years ended June 30, 2009, 2008, 2007 and 2006 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2010 and 2009 was \$1,175,146 (\$997,864 of this was in-kind) and \$1,092,910 (\$980,162 of this was in-kind), respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2010 for potential recognition or disclosure in the financial statements. The Organization has subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2010 (see Note 18). Subsequent events have been evaluated through the date the financial statements became available to be issued, June 21, 2011.

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - PROPERTY AND EQUIPMENT:

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

	<u>2010</u>	<u>(Restated)</u> <u>2009</u>
Mexican Heritage Plaza Leasehold Improvements*	\$ 938,143	\$ 961,391
Computers and Equipment	161,250	400,270
Festival Equipment	12,308	12,308
Furniture and Equipment	<u>-</u>	<u>2,539</u>
	1,111,701	1,376,508
Less: Accumulated Depreciation	<u>(571,088)</u>	<u>(622,926)</u>
Property and Equipment, Net	<u>\$ 540,613</u>	<u>\$ 753,582</u>

* As disclosed in Note 12 to the financial statements the Organization is in the process of negotiating a new long-term lease agreement and/or a contract to continue using and performing at the Mexican Heritage Plaza.

Depreciation expense for the years ended June 30, 2010 and 2009 was \$201,029 and \$151,914, respectively.

NOTE 5 - 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.

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - LINE OF CREDIT:

The Organization has a \$200,000 line of credit with Wells Fargo Bank. The line of credit is secured by the Organization's personal and real property and bears interest at prime rate plus 5% per annum. As of June 30, 2010 and 2009 the amount outstanding was \$150,000 and \$73,000, respectively. The Organization is in the process of negotiating to convert the line of credit to a term loan.

NOTE 7 - LOAN PAYABLE:

During the year ended June 30, 2010, the Organization entered into a loan agreement with Northern California Grantmakers', Arts Loan Fund, in the amount of \$50,000. The loan was unsecured, bearing 2.25% simple interest. As of June 30, 2010 the amount outstanding was \$50,043. The loan was payable in full on September 30, 2010. Subsequent to year end the Organization paid the loan in full.

NOTE 8 - NOTE PAYABLE - RELATED PARTY:

During the year ended June 30, 2010, the Organization entered into a note payable with Organization's Chief Executive Officer in the amount of \$30,000. The note was unsecured and non-interest bearing. The note was payable on May 30, 2015. Subsequent to year end, the Chief Executive Officer converted the note into a contribution to the Organization.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2010</u>	<u>(Restated) 2009</u>
Purpose Restriction:		
San José Mariachi and Mexican Heritage Festival	\$ 102,500	\$ 164,940
Total Temporarily Restricted Net Assets	<u>\$ 102,500</u>	<u>\$ 164,940</u>

NOTE 10 - CONTINGENCIES:

Grants and contracts awarded to Mexican Heritage Corporation 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.

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - CONTINGENCIES (Continued):

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 11 - CONCENTRATIONS:

Program Funding - Continued program funding is contingent upon the availability of funds from federal, state and local funding sources and program performance.

NOTE 12 - OPERATING LEASE COMMITMENTS:

Mexican Heritage Plaza - The Organization leases space at the Mexican Heritage Plaza from the City of San Jose on month-to-month basis. The Organization is in the process of negotiating a new long-term lease agreement and/or a contract to continue using and performing at the Mexican Heritage Plaza. Rental expense for the above lease for the years ended June 30, 2010 and 2009 was \$44,113 (\$36,036 of this was in-kind) and \$44,040 (\$36,703 of this was in-kind), respectively.

Downtown San Jose Office - In June 2010 the Organization moved its headquarters to downtown San Jose. The Organization is in the process of negotiating a long-term lease agreement for this space.

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS:

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>2010</u>
Purpose Restriction:	
San José Mariachi and Mexican Heritage Festival	\$ <u>164,940</u>
Total Net Assets Released from Restrictions	\$ <u>164,940</u>

MEXICAN HERITAGE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated media, travel, rent, materials, expert services and equipment received are recorded as contributions. During the years ended June 30, the following contributions in-kind were received:

	<u>2010</u>	<u>(Restated) 2009</u>
Contributions In-Kind:		
Media	\$ 997,864	\$ 980,162
Professional Services	44,100	-
Travel	24,000	10,000
Rent	36,036	36,703
Supplies	12,000	5,000
Audit Services	3,000	-
Piano	<u>-</u>	<u>4,700</u>
Total Contributions In-Kind	<u>\$ 1,117,000</u>	<u>\$ 1,036,565</u>

In addition, during the year ended June 30, 2010, the Organization received media services valued at \$38,730 in exchange for event tickets valued at \$20,730 and event booth rentals valued at \$18,000.

NOTE 15 - 401(K) PLAN:

Effective July 1, 2000, the Organization implemented a 401(k) plan. Eligible participants were able to contribute a percentage of compensation, up to a prescribed maximum, subject to the limitations of Internal Revenue Code. Eligible employees were those who are at least 21 years of age and had completed 6 months of service. The Plan provided for the Organization to make matching contributions at the discretion of the Board of Directors. The Organization made no contributions to the Plan for the years ended June 30, 2010, 2009, 2008, 2007 and 2006. During the year ended June 30, 2010 the plan was terminated.

NOTE 16 - 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.

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NOTE 17 - PRIOR PERIOD ADJUSTMENT:

During the year ended June 30, 2010 the Organization performed additional analysis relating to its accounting for event sponsorships. The additional analysis resulted in the Organization determining that certain sponsorships included both a contribution element and an exchange transaction element. The portion of the sponsorships which were determined to be contributions resulted in adjustments to the Organization's temporarily restricted grants and contributions, temporarily restricted net assets and deferred revenue balances. As of June 30, 2009 and 2008 temporarily restricted net assets was understated by \$164,940 and \$173,834, and deferred revenue was overstated by \$164,940 and \$173,834, respectively.

NOTE 18 - SUBSEQUENT EVENTS:

The 19th Annual San Jose Mexican Heritage Festival ("Festival") experienced a significant change to its schedule as a result of the cancellation by the Festival headline act of its billed performance on September 26, 2010 at the HP Pavilion Arena in San Jose, California. The cancellation was unauthorized by the Festival. Festival management and the artist have agreed to a replacement concert event on June 16, 2011. MHC has accordingly accounted for the expenses associated with the canceled event as pre-paid expenses and the projected revenue as deferred income.

MHC has also instituted further expense reductions, pending the receipt of deferred income from the June 16, 2011 event by expanding temporary staff furloughs and generating additional contributed revenue through several fundraisers including an online auction and campaign, increased Board giving, and the contribution of a substantial gift by MHC's Chief Executive Officer.

NOTE 19 - CONTINUING OPERATIONS:

MHC responded to the changed economic environment and subsequent events detailed in Note 18 by crafting a new business model for the Festival and eliminating program delivery which is not sustainable. Having seen a decrease of core sponsorship support from the San Jose Redevelopment Agency (RDA) as a result of the State of California's ongoing utilization of RDA funds to support state operating expenses, MHC downsized core operations in 2010 by instituting an across the board staff furlough of one day a week, and eliminating or reducing fees associated with production activities of the festival. In Q1 of 2011 the Organization commenced a revision of its strategic plan to focus on producing the Festival and re-structuring program delivery of educational programs to ensure cost recovery in each program area.

Additional specific steps taken by the Organization to address the downturn in the economy and subsequent events are:

- The Board of Directors and management have reviewed and commenced execution of a fund-raising plan to recoup losses sustained from the 2010 Festival. The plan includes solicitation of major support from corporations, philanthropy and individuals and a campaign in Spanish language media to raise support for the music programs of the Organization.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 19 - CONTINUING OPERATIONS (Continued):

- The Board and management have set an aggressive net profit goal for the 2011 Festival of \$500,000 by reformatting Festival program elements and reducing expenses through collaboration with other arts non-profit organizations in the San Francisco Bay Area, including The Mexican Museum and The Tech Museum of Innovation. Administrative support functions have been combined and streamlined, lowering overhead while increasing revenue generation capabilities.
- The MHC Board has commenced reorganization of its executive committee leadership and established a Co-Chairperson structure with one chairperson from Silicon Valley and one from the City of San Francisco.
- The Board has secured support from key Latino leaders in philanthropy, the private sector and from elected officials.
- Management and the Board have begun a thorough review of MHC's financial reporting and obligations. This oversight includes working with MHC lenders to modify existing agreements, updating financial reports, reducing expenses (including staff costs and securing pro-bono assistance) and affirmatively pursuing synergistic new sources of earned revenue for the Festival via licensing or joint venture arrangements with private sector entertainment or music industry players.

With a balanced and realistic budget and business plan in place, along with a detailed cash flow for the Organization's operations, MHC commences its 2010-11 season leaner and better prepared to operate within these new economic realities. Management believes that the completion of its business plan for 2011-12 will allow the Organization to not only meet its operational responsibilities for the year but to begin generating the revenues necessary to address the operational loss from 2009-10. By combining the expense cuts made to operations and the restructuring of the revenue generating staff with significant attention to income generation, the Organization has prepared itself not only to survive the current economic downturn, but to emerge better prepared to grow the Organization in the future.