

HISTORY SAN JOSE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2018

**IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

**HISTORY SAN JOSE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
HISTORY SAN JOSE
San Jose, California

Report on Financial Statements

We have audited the accompanying financial statements of History San Jose, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of History San Jose as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of History San Jose's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering History San Jose's internal control over financial reporting and compliance.

Going Concern

The accompanying financial statements have been prepared assuming that History San Jose will continue as a going concern. As discussed in Note 4 to the financial statements, History San Jose has suffered recurring losses from operations, which raise doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



San Francisco, California
November 30, 2018

**HISTORY SAN JOSE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

Assets	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Current Assets:				
Cash and Cash Equivalents	\$ 13,757	\$ -	\$ -	\$ 13,757
Accounts Receivable	14,901	784,000	-	798,901
Inventories	2,931	-	-	2,931
Prepaid Expenses	1,000	-	-	1,000
Deposits and Other Assets	1,944	-	-	1,944
Interfund Receivable / (Payable)	(180,928)	77,082	103,846	-
Total Current Assets	<u>(146,395)</u>	<u>861,082</u>	<u>103,846</u>	<u>818,533</u>
Non-current Assets:				
Restricted Cash	-	-	23,380	23,380
Leasehold Improvements and Equipment, net	189,202	-	-	189,202
Total Non-current Assets	<u>189,202</u>	<u>-</u>	<u>23,380</u>	<u>212,582</u>
Total Assets	<u>\$ 42,807</u>	<u>\$ 861,082</u>	<u>\$ 127,226</u>	<u>\$ 1,031,115</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable	\$ 228,861	\$ -	\$ -	\$ 228,861
Accrued Payroll and Related Benefits	61,604	-	-	61,604
Line of Credit/Loan Payable	57,509	-	-	57,509
Capital Lease Liability	9,263	-	-	9,263
Deferred Revenue	13,935	-	-	13,935
Total Liabilities	<u>371,172</u>	<u>-</u>	<u>-</u>	<u>371,172</u>
Net Assets:				
Unrestricted	(328,365)	-	-	(328,365)
Temporarily Restricted	-	861,082	-	861,082
Permanently Restricted	-	-	127,226	127,226
Total Net Assets	<u>(328,365)</u>	<u>861,082</u>	<u>127,226</u>	<u>659,943</u>
Total Liabilities and Net Assets	<u>\$ 42,807</u>	<u>\$ 861,082</u>	<u>\$ 127,226</u>	<u>\$ 1,031,115</u>

See notes to the financial statements

**HISTORY SAN JOSE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTALS</u>
SUPPORT AND OTHER REVENUES:				
Support:				
Donations	\$ 136,162	\$ 437	\$ -	\$ 136,599
Membership donations	42,798	-	-	42,798
City of San Jose grant	13,782	784,000	-	797,782
In-kind Support	67,153	-	-	67,153
Total Support	<u>259,895</u>	<u>784,437</u>	<u>-</u>	<u>1,044,332</u>
Other Revenue:				
Retail Sales	22,083	-	-	22,083
Cost of goods sold	(7,360)	-	-	(7,360)
Net retail sales	<u>14,723</u>	<u>-</u>	<u>-</u>	<u>14,723</u>
Program fees	196,751	-	-	196,751
Contract Services	1,982	-	-	1,982
Rental income	292,263	-	-	292,263
Investment income	1,287	-	15	1,302
Deaccession	1,032	-	-	1,032
Other income	1,975	-	-	1,975
Total Other Revenue	<u>510,013</u>	<u>-</u>	<u>15</u>	<u>510,028</u>
Net assets released from restrictions	834,632	(834,617)	(15)	-
Total Support and Revenue	<u>1,604,540</u>	<u>(50,180)</u>	<u>-</u>	<u>1,554,360</u>
EXPENSES				
Program Services	598,173	-	-	598,173
Supportive Services:				
Management and General	747,067	-	-	747,067
Fund-raising	279,447	-	-	279,447
Total Expenses	<u>1,624,687</u>	<u>-</u>	<u>-</u>	<u>1,624,687</u>
CHANGES IN NET ASSETS	(20,147)	(50,180)	-	(70,327)
Net Assets, beginning of year	<u>(308,218)</u>	<u>911,262</u>	<u>127,226</u>	<u>730,270</u>
NET ASSETS, END OF YEAR	<u>\$ (328,365)</u>	<u>\$ 861,082</u>	<u>\$ 127,226</u>	<u>\$ 659,943</u>

See notes to the financial statements

HISTORY SAN JOSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Supportive Services			TOTAL
		Management and General	Fund Raising	Subtotal	
Salaries & Wages	\$ 336,632	\$ 260,556	\$ 157,397	\$ 417,953	\$ 754,585
Employer payroll taxes	26,882	18,904	12,516	31,420	58,302
Retirement	3,999	5,330	792	6,122	10,121
Employee Benefits	5,855	73,717	32,949	106,666	112,521
Subtotal employee related expenses	<u>373,368</u>	<u>358,507</u>	<u>203,654</u>	<u>562,161</u>	<u>935,529</u>
Professional support and contract labor	69,352	41,281	1,614	42,895	112,247
Education and training	12,576	3,169	1,724	4,893	17,469
Building maintenance	9,995	42,897	-	42,897	52,892
Utilities	16,230	94,357	853	95,210	111,440
In-kind Rent	48,000	-	-	-	48,000
Business charges and interest	1,209	15,000	918	15,918	17,127
License and taxes	1,871	406	-	406	2,277
Insurance	2,116	24,512	-	24,512	26,628
Telephone and Internet	189	65,204	1,539	66,743	66,932
Travel	1,019	158	131	289	1,308
Printing and advertising	19,018	446	11,997	12,443	31,461
Supplies	19,330	8,537	1,759	10,296	29,626
Postage and shipping	471	1,315	120	1,435	1,906
Equipment and repairs	17,709	24,349	8,750	33,099	50,808
Food and catering	4,208	3,670	31,388	35,058	39,266
Amortization and depreciation	-	27,621	-	27,621	27,621
Other expenses	12	32,985	-	32,985	32,997
In-kind Match	1,500	2,653	15,000	17,653	19,153
Total Expenses	<u>\$ 598,173</u>	<u>\$ 747,067</u>	<u>\$ 279,447</u>	<u>\$ 1,026,514</u>	<u>\$ 1,624,687</u>

See notes to the financial statements

**HISTORY SAN JOSE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in Net Assets	\$ (70,327)
<i>Adjustments to reconcile net expenditures over net revenue to net cash used by operations</i>	
Depreciation	27,621
<i>(Increase)/Decrease in:</i>	
Accounts Receivable	(6,031)
Inventories	477
Prepaid Expenses	(1,000)
Other Assets	4,344
<i>Increase/(Decrease) in:</i>	
Accounts Payable	64,514
Accrued Compensation & Other Liabilities	(11,450)
Deferred Revenue	(21,238)
Net Cash Provided (Used) By Operating Activities	(13,090)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	(15)
Net Cash Provided (Used) By Investing Activities	(15)

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in Capital Lease Liability	(5,702)
Proceeds from Line of Credit/Loan	17,509
Net Cash Provided (Used) By Financing Activities	11,807

Net Increase (decrease) in cash and cash equivalents (1,298)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 15,055

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 13,757

Supplementary Disclosures:

Interest paid \$ 4,667

HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018

NOTE 1: ORGANIZATION

The City of San Jose (the City) owns various historic assets related to the City and Santa Clara Valley, including History Park with its historic and reconstructed structures; the Peralta-Fallon Historic Site; and the Collection Center, which houses a permanent museum collection, hereafter referred to as the Museum. In 1998, the City council approved a plan to transfer the operation and maintenance of the above facilities to a nonprofit corporation. History San Jose (HSJ) was formed for the purpose of preserving these historic sites through an operations & maintenance contract with the City, membership, fund raising, earned income opportunities and educational and volunteer services.

The permanent collection of historic artifacts and records related to the City and the Santa Clara Valley is comprised of artifacts and a research library with records, maps, and photographs from private individuals, businesses and organizations. HSJ has elected not to capitalize items in the collection in accordance with the American Alliance of Museums' best practices.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

HSJ prepares its financial statements using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when they are incurred.

Basis of Presentation

HSJ 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.

Use of Estimates

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

Tax Exempt Status

HSJ is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code, and therefore has made no provisions for federal income taxes in the accompanying financial statements. HSJ is also exempt from California state franchise tax under Section 23701(d) of the State's Revenue and Taxation Code. Management believes that HSJ has no uncertain tax positions as of June 30, 2018.

HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

HSJ considers all highly liquid debt instruments with original maturities of three months or less from date of purchase and money market funds to be cash equivalents. There were no cash equivalents at June 30, 2018.

Investments

Investments consist of certificates of deposit with original terms exceeding 90 days carried at fair value based on quoted prices in active markets (all Level 1 measurements).

Inventories

Inventories consist of books, gifts, and food held for resale, and is valued at the lower of cost (on a first-in, first-out basis) or market.

Fair Value of Financial Instruments

The amounts reported for cash, accounts receivables, accounts payable and accrued expenses approximate fair value due to their short maturities.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost and amortized or depreciated over the shorter of the estimated useful life of the asset or lease term using the straight-line method. The depreciable lives or lease terms range from three to fifteen years. Major repairs or replacements of leasehold improvements and equipment are capitalized. Maintenance, repairs and minor replacements are charged to expenses as incurred.

Revenue Recognition

Grant revenue and program fees are recognized as unrestricted revenue in the period in that service is provided. Revenue arising from existing contracts may be recognized as revenue if expected to be realized immediately within the next fiscal year and is reflected as temporarily restricted net assets in the Statement of Financial Position.

Donations

Donations received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any restrictions. Donations are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise.

All donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Donations (continued)

Donations of equipment and other donated goods are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and donations of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulations regarding how long those donations must be maintained, HSJ reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. HSJ reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributed Services and Equipment

Contributed services, which require a specialized skill and which HSJ would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. Donated equipment is reflected as a donation in the accompanying financial statements at its estimated value at date of receipt.

Advertising Expenses

The costs of advertising are expensed as incurred. During the year ended June 30, 2018, advertising costs charged to expense totaled \$15,230.

Allocated Expenses

Expenses specifically identifiable to a particular program or functional activity are charged to the related program or functional activity as incurred. Shared or indirect expenses are allocated to the program or functional activity based on relative direct expenses.

NOTE 3: OPERATION AGREEMENT WITH THE CITY

Effective July 1, 2009, HSJ and the City entered into a restated and amended agreement whereby the City retained HSJ to operate and maintain the Museum. The agreement with the City was extended and will expire on June 30, 2019. Subject to annual appropriation, as approved by the City's governing board, the restated and amended agreement provides for annual financial support from the City of \$875,000 for each fiscal year through June 30, 2019. However, due to budgetary constraints, the financial support from the City was reduced to \$784,000 for 2012. In consideration for the renewed annual support from the City, HSJ agreed to (i) replenish the endowment fund, (ii) replenish unearned temporarily restricted net assets to required level and (iii) reduce accounts payable to under sixty days outstanding.

**HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018**

NOTE 3: OPERATION AGREEMENT WITH THE CITY (CONCLUDED)

As previously required under the former agreement, HSJ is also required to maintain a cash reserve fund equal to 25% of HSJ's annual operating budget. Due to insufficient cash flow in the current and previous years, HSJ has not established the cash reserve fund. The agreement requires HSJ to contribute 3% of the current operating budget to the cash reserve fund until such time as the cash reserve fund equals the required amount. However, in consideration of the requirements described in the preceding paragraph and the additional hardship that would be caused by funding the cash reserve fund, funding the cash reserve fund has been temporarily suspended during 2015 while HSJ works to reduce the amounts described in the preceding paragraph.

Because HSJ was not able to complete the repayment of the obligations described above by July 1, 2012, the City, at its sole discretion, may reinstate the requirement to fund the cash reserve fund. However, the City has informally advised HSJ that because of the additional hardship reinstating the requirement to fund the cash reserve fund would cause HSJ, it has elected not to do so at this time. Further, since the financial standards set forth by the City were not met by HSJ as of July 1, 2012, the funding provided by the City for future years will remain at the fiscal 2012 level until the financial standards are met. The City shall retain the right to reduce the funding level by an additional 5% in subsequent fiscal years if substantial progress towards meeting the financial standards set out in the agreement (as determined at the sole discretion of the City) is not made by HSJ.

NOTE 4: GOING CONCERN

History San Jose has sustained a deficit of \$328,365 through June 30, 2018 of unrestricted net assets. As described in Note 3, HSJ is required to reduce or repay certain financial obligations or risk decreased financial support from the City. In this regard, HSJ Management has taken steps to create a team of officers and directors who will negotiate for the renewal of the operating agreement with the City of San Jose that is due to expire on June 30, 2019. As of the report date, HSJ received half of FY 2018-2019 city funds. The financial statements do not include any adjustments that might be necessary if HSJ is unable to continue as a going concern.

NOTE 5: INVESTMENTS

The FASB defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and describes disclosures about fair value measurements.

**HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018**

NOTE 5: INVESTMENTS (CONTINUED)

The FASB has established a three level fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. A level is assigned to each fair value measurement in its entirety. The three levels of the fair value hierarchy under the FASB are defined as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

Level 2 – Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (i.e. supported by little or no market activity).

Investments, which are stated at fair market value using quoted prices in active markets for identical assets (all Level 1 measurements), consist of the following at June 30, 2018:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Certificate of Deposit	\$ 23,380	\$ 23,380	\$ 0
Total	\$ <u>23,380</u>	\$ <u>23,380</u>	\$ <u>0</u>

NOTE 6: LEASEHOLD IMPROVEMENTS AND EQUIPMENT

The original cost and accumulated depreciation for the property and equipment were as follows:

Leasehold Improvements	\$ 925,485
Office Furniture and Equipment	433,529
Museum Equipment	66,606
Total	<u>1,425,620</u>
Less: accumulated depreciation	<u>(1,236,418)</u>
Leasehold Improvements, net	<u>\$ 189,202</u>

Depreciation expense for the year ended June 30, 2018, was \$27,621.

**HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018**

NOTE 7: PERMANENTLY RESTRICTED NET ASSETS / ENDOWMENT FUND

Permanently restricted net assets consist of the San Jose Historical Museum Fund. It is an endowment fund whose purpose is to promote, receive and accept gifts from members of the History San Jose and friends to be used for the betterment of the San Jose Historical Museum. Restrictions on this Fund have been set forth with the understanding that the principal of donations accumulated shall be held and not distributed. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets. The funds shall be invested in a well-diversified asset mix, which may include equity and debt securities, depending on market conditions as determined by a duly appointed Trustee. Based on this strategy, the Organization expects its endowment assets, may over time, generate earnings that can be made available for distribution as necessary without further reducing the principal portion of the Fund.

Spending Policy. The Organization's spending policy for this endowment was set forth by the Board of Directors in the absence of donor-imposed restrictions, particularly on the utilization of earnings generated by the Fund. As such, income generated by the Fund may be appropriated for subsequent reclassification to Unrestricted Funds.

Prior to June 30, 2006, the Board, due to prevailing economic conditions that affected the financial stability of the Organization, authorized the utilization of permanently restricted net assets of \$138,425 to fund operations. To date, HSJ has retained \$23,380 of the Endowment Fund in the form of a Certificate of Time Deposit, which is shown as "Restricted Cash" in the Statement of Financial Position.

At June 30, 2018, the unpaid balance of permanently restricted net assets was \$103,846 and is shown as an inter-fund receivable/payable item on the Statement of Financial Position.

**HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018**

**NOTE 7: PERMANENTLY RESTRICTED NET ASSETS / ENDOWMENT FUND
(CONCLUDED)**

Changes in endowment net assets as of June 30, 2018 are as follows:

	Permanently Restricted	Total Net Endowment Funds
Donor-Restricted Endowment Funds	\$ 127,226	\$ 127,226

Changes in endowment net assets as of June 30, 2018 are as follows:

	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	\$ 127,226	\$ 127,226
Investment Income	15	15
Appropriated for expenditure	(15)	(15)
Endowment Net Assets, End of Year	\$ 127,226	\$ 127,226

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 are as follows:

Sims Bequest	\$ 2,630
History Park Signage	8,663
Printers' Guild	5,864
Farm Labor Cottages	46,265
Trolley Barn	13,660
FY18-19 Operation Funds – City of San Jose	784,000
Total Temporarily Restricted Net Assets	\$ 861,082

Temporarily restricted net assets are residual amounts of certain grants for specific projects as directed by the donors. Over the years, these projects are either in progress or under continued supervision by HSJ Management.

Included in temporarily restricted net assets is the receivable for the FY2018-2019 Operating Funds of \$784,000 expected to be collected from the City of San Jose within the next fiscal year.

HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS (CONCLUDED)

The remaining \$77,082 are residual amounts of certain grants for specific projects as directed by the donors. Over the years, these projects are either ongoing or under continued supervision by HSJ Management. They are shown as an inter-fund receivable/payable on the Statement of Financial Position.

NOTE 9: IN-KIND SUPPORT

For the year ended June 30, 2018, HSJ received the following in-kind support:

City of San Jose:	
Occupancy - facilities	\$ 48,000
Other:	
In-Kind Match	<u>19,153</u>
Total In-Kind Support	<u>\$ 67,153</u>

During fiscal year 2018, HSJ received donated time and services from non-specialized volunteers. During 2018, there were approximately 245 volunteers who donated approximately 29,412 hours of service.

Note 10: RETIREMENT PLAN

HSJ has established a 401(k) retirement plan for all eligible employees. Under the terms of the plan, all employees who are at least 18 years of age and have completed one year of service may participate. Each participant may elect to contribute the statutory limit as prescribed by the Internal Revenue Code. HSJ may make matching contributions up to 3% of participant compensation. HSJ contributions vest over six years. During 2018, HSJ made \$10,122 in contributions to the plan.

**HISTORY SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2018**

Note 11: CAPITAL LEASE

HSJ leases its telephone system under a capital lease expiring in July 2020. The economic substance of the lease is that HSJ is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in HSJ's assets and liabilities.

The following is an analysis of the leased asset included in Fixed Assets:

Capital Lease: Telephone System	\$ 25,779
Less: Accumulated Depreciation	<u>(7,734)</u>
Capital Lease Fixed Asset	<u>\$ 18,045</u>

Future minimum payments for the lease mentioned above along with their present value as of June 30, 2018 is as follows:

Year Ended June 30:	
2019	\$ 5,167
2020	<u>4,631</u>
Total Minimum Lease Payments	<u>\$ 9,798</u>

Note 12: LINE OF CREDIT / LOAN PAYABLE

HSJ has a line of credit with a bank providing up to \$40,000 through May 4, 2019. Borrowings are at the bank's index rate of 4.75% and are secured by HSJ's assets. The agreement requires HSJ to meet certain financial covenants and ratios. The line of credit is subject to annual bank review. As of June 30, 2018, \$40,000 had been drawn down and was outstanding.

HSJ has a loan with Nonprofits Insurance Alliance of California providing up to \$50,000 through November 2018. Borrowings are at a fixed interest rate of 6.0%. As of June 30, 2018, \$17,509 had been drawn down and was outstanding.

Note 13: SUBSEQUENT EVENTS

The management of HSJ has evaluated its subsequent events through November 30, 2018, the date the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
History San Jose
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of History San Jose, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.