



## **History San José**



Preserving Our Heritage

# **HISTORY SAN JOSE**

(A CALIFORNIA NONPROFIT ORGANIZATION)

**FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2021**

**HISTORY SAN JOSE**  
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**JUNE 30, 2021**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
HISTORY SAN JOSE

We have audited the accompanying financial statements of HISTORY SAN JOSE (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, 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. 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 entity'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 entity'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, 2021, 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.

A handwritten signature in black ink, appearing to read "D. M. J.", is written over a light blue horizontal line.

*Iryna Accountancy Corporation*

Oakland, California  
July 27, 2022

HISTORY SAN JOSE

STATEMENT OF FINANCIAL POSITION  
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 112,387	\$ 110,518	\$ 222,905
Accounts receivable	-	43,665	43,665
Inventory	2,884	-	2,884
Prepaid expenses	11,202	-	11,202
Total current assets	126,473	154,183	280,656
Certificates of deposit, endowment	-	23,544	23,544
Restricted cash, endowment	-	114,881	114,881
Property and equipment, net	496,878	-	496,878
Total assets	\$ 623,351	\$ 292,608	\$ 915,959
<b>LIABILITIES</b>			
Accounts payable	41,667	-	41,667
Accrued compensation	61,922	-	61,922
Deferred revenue	17,322	-	17,322
Loans payable	23,809	-	23,809
Total current liabilities	144,720	-	144,720
Total liabilities	144,720	-	144,720
<b>NET ASSETS</b>			
Without donor restrictions			
Undesignated	478,631	-	478,631
Total net assets without donor restrictions	478,631	-	478,631
With donor restrictions			
Purpose and time restricted	-	154,183	154,183
Restricted in perpetuity	-	138,425	138,425
Total net assets with donor restrictions	-	292,608	292,608
Total net assets	478,631	292,608	771,239
Total liabilities and net assets	\$ 623,351	\$ 292,608	\$ 915,959

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

HISTORY SAN JOSE

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support			
Donations and grants	\$ 1,207,036	\$ 316,973	\$ 1,524,009
In-kind contributions	55,609	-	55,609
Total support	<u>1,262,645</u>	<u>316,973</u>	<u>1,579,618</u>
Revenue			
Sales	3,767	-	3,767
Cost of goods sold	<u>(2,253)</u>	<u>-</u>	<u>(2,253)</u>
Net sales	1,514	-	1,514
Program fees	33,325	-	33,325
Rental income	30,045	-	30,045
Membership dues	22,124	-	22,124
Interest income	2,411	-	2,411
PPP loan forgiveness	<u>-</u>	<u>130,000</u>	<u>130,000</u>
Total revenue	89,419	130,000	219,419
Net assets released from restrictions	<u>332,930</u>	<u>(332,930)</u>	<u>-</u>
Total support and revenue	<u>1,684,994</u>	<u>114,043</u>	<u>1,799,037</u>
<b>EXPENSES</b>			
Program services	731,120	-	731,120
Management and general	408,610	-	408,610
Fundraising	<u>56,097</u>	<u>-</u>	<u>56,097</u>
Total expenses	<u>1,195,827</u>	<u>-</u>	<u>1,195,827</u>
<b>CHANGE IN NET ASSETS</b>	489,167	114,043	603,210
Net assets, beginning of year before adjustment	663	1,017,366	1,018,029
Less: prior year adjustment	<u>-</u>	<u>(850,000)</u>	<u>(850,000)</u>
Net assets, beginning of year adjusted	663	167,366	168,029
Net asset reclassification	<u>(11,199)</u>	<u>11,199</u>	<u>-</u>
Net assets, end of year	<u>\$ 478,631</u>	<u>\$ 292,608</u>	<u>\$ 771,239</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

HISTORY SAN JOSE

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 349,145	\$ 157,613	\$ 37,714	\$ 544,472
Payroll taxes	23,522	11,442	4,733	39,697
Retirement benefits	3,357	2,712	-	6,069
Employee benefits	<u>29,930</u>	<u>32,712</u>	<u>9,366</u>	<u>72,008</u>
Total personnel expenses	405,954	204,479	51,813	662,246
Accounting fees	-	30,907	-	30,907
Advertising	368	1,340	-	1,708
Contract labor	2,535	50,484	-	53,019
Dues, licenses, service fees	11,965	16,337	1,586	29,888
Exhibit cost	10,918	6,060	1,079	18,057
In-kind rent	48,000	-	-	48,000
In-kind services and materials	7,609	-	-	7,609
Insurance	3,937	1,904	798	6,639
Interest	-	7,503	-	7,503
Occupancy costs	130,794	-	460	131,254
Office expenses	96,134	25,372	10	121,516
Professional services	8,743	120	-	8,863
Travel and meals	1,226	673	351	2,250
Vehicle maintenance	2,417	-	-	2,417
Depreciation expense	-	63,062	-	63,062
Other expenses	<u>520</u>	<u>369</u>	<u>-</u>	<u>889</u>
Total expenses	\$ <u>731,120</u>	\$ <u>408,610</u>	\$ <u>56,097</u>	\$ <u>1,195,827</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**HISTORY SAN JOSE**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$	603,210
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:		
Depreciation expense		63,062
Forgiven PPP loan		(130,000)
(Increase) decrease in operating assets:		
Accounts receivable		806,338
Inventory		-
Prepaid expenses		(1,685)
Increase (decrease) in operating liabilities:		
Accounts payable		(84,320)
Accrued compensation		7,385
Deferred revenue		(939)
Net cash (used)/provided by operating activities		1,263,051

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of certificates of deposit		(117)
(Increase) decrease in restricted cash		(114,881)
Purchase of fixed assets		(207,727)
Net cash (used)/provided by investing activities		(322,725)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payment of loans payable		(46,191)
Payment of line of credit		(40,000)
Net cash (used)/provided by financing activities		(86,191)

**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS**

		854,135
Cash and cash equivalents, beginning of year		
With donor restrictions		-
Without donor restrictions		218,772
Total cash and cash equivalents, beginning of year		218,772
Less: prior year adjustment		(850,002)
Cash and cash equivalents, end of year		
With donor restrictions		110,518
Without donor restrictions		112,387
Total cash and cash equivalents, end of year	\$	222,905
Interest paid	\$	7,503

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

## HISTORY SAN JOSE

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – SUMMARY OF ACTIVITIES

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 1988, the City Council approved a plan to transfer the operation and maintenance of the above facilities to a nonprofit corporation. HISTORY SAN JOSE (HSJ) (the Organization) was formed for the purpose of preserving these historic sites through an operations and maintenance contract with the City.

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.

HISTORY SAN JOSE promotes education through on site and virtual educational programming, as well as on site and virtual public programming. HISTORY SAN JOSE is home to numerous cultural organizations celebrating the diversity of Santa Clara County sharing stories through exhibits, festivals and events.

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of Accounting*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

##### *Adoption of Revenue Recognition Pronouncement*

For the year ended June 30, 2020, HSJ implemented the following accounting pronouncements: ASU No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*.

Analysis of various provisions of the standards resulted in no significant changes in the way HSJ recognizes its revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with these standards.

##### *Use of Estimates*

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

##### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, HSJ considers all cash accounts with a maturity of three months or less to be cash equivalents.



## **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *Income Taxes*

HSJ is a not-for-profit organization that is exempt from federal income tax on income under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701 (d). However, income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no tax on unrelated business income for year ended June 30, 2021.

### *Net Assets*

Financial statement presentation follows the requirement of the Financial Accounting Standard Board. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board can designate, from net assets without donor restrictions, net assets for an operating reserve or board-designated endowment. There were no board-designated net assets as of June 30, 2021.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. HSJ had \$154,183 and \$138,425 net assets with donor restrictions temporarily and perpetual in nature as of June 30, 2021, accordingly.

### *Functional Allocation of Expenses*

The costs of providing various programs and other activities are summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited based on the management estimate. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Salaries and related expenses are allocated based on employees' direct time spent on program or support activities or the best estimate of time spent. Rents are allocated to program activities because the facility is used for provide direct program support. Expenses, other than salaries and related expense, which are not directly identifiable by program or support services, are allocated based on the management's best estimate.

### *Property, Equipment and Depreciation*

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, HSJ reports expirations of donor restrictions when the donated or acquired assets are placed in service. HSJ reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives of three to thirty years.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Investments*

HSJ carries investments in certificates of deposit funds with readily determinable fair values in the statement of financial position. Dividends, interest, investment fees and taxes, unrealized gains and losses, and realized gains and losses are all included in investment income in the accompanying statement of activities.

*Revenue Recognition*

HSJ recognizes support and revenue on the accrual basis of accounting. Service fees is recognized as revenue in the period in which the service is provided. Grants are recognized as revenue in the period in which they are awarded in writing, if not conditional. HSJ’s primary revenue sources are contracts, grants and donations.

HSJ recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of HSJ’s revenue is derived from cost-reimbursable contracts, which are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amount received are recognized as revenue when HSJ has incurred expenditures in compliance with specific contract or grant provisions. Amount received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Consequently, at June 30, 2021, contributions approximating \$2,675,837, have not been recognized in the accompanying statement of activities because the condition on which they depend has not yet been met. The total conditional contributions are contingent upon:

<u>Conditions</u>	<u>Amount</u>
Operation of Museum	\$ 2,605,840
Appropriate use of funds	<u>69,997</u>
Total conditional contributions	\$ <u><u>2,675,837</u></u>

*Contributions and Contributions Receivable*

Contributions are recognized as revenue when received or unconditionally promised. Contributions received are recorded as without donor restrictions or with donor restriction support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with time and purpose restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional pledges are recognized as receivables and revenue when the conditions on which they depend are substantially met. Contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization uses the allowance method to determine uncollectible receivable. The allowance is based on prior years’ experience and management’s analysis of specific promises made.

## **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *Contributions In-kind*

Donated equipment and other donated goods are recorded at their estimated fair market value on the day of donation. Donated services are recognized as contributions if the services create or enhance a financial asset or require specialized skills which the donor has and would otherwise be purchased by HSJ.

### *Advertising Expenses*

Advertising costs are expensed when the advertising occurs. During the year ended June 30, 2021, advertising costs charged to expense totaled \$1,708.

### *Fair Value of Financial Instruments*

The following methods and assumptions were used by HSJ in establishing the fair value of its financial statements: the carrying amounts of cash, grants and accounts receivables, prepaid expenses, deposits, and accounts payable, accrued expenses, and other current liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables and payables approximate fair value as these receivables and payables earn or are charged interest based on the prevailing rates.

### *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. In determining fair value, HSJ uses a fair value hierarchy which is categorized into three levels as follows:

*Level 1* – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities that the organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in active markets, valuation of these balances does not entail a significant degree of judgment.

*Level 2* – Valuations are based on quoted prices for similar assets or liabilities in active markets from those willing to trade that are not active or for which other inputs can be corroborated by market data.

*Level 3* – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement and represent HSJ's best estimate of what hypothetical market participants would use to determine a transaction price for an asset or liability.

HSJ's assets recognized at fair value are certificate of deposits that valued at Level 1. Fair values for certificates of deposit are determined by reference to quoted market prices and other relevant information generated by market transactions.

As of June 30, 2021, carrying value of certificates of deposit equals to fair value of \$23,544.

### *Inventory*

Inventory consists of books, gifts, and food held for resale and is valued at lower of cost (on a first-in, first-out basis) or net realizable value.

### *Deferred Revenue*

Deferred revenue represents membership dues and property use fees received prior to when the related service is provided.

**NOTE 3 – DONATED AND IN-KIND CONTRIBUTIONS**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

During the years ended June 30, 2021, HSJ received donated services from unpaid volunteers who provided board and support services that do not satisfy the criteria for recognition under *FASB ASC 958-605-25-16*.

The management estimated that about 9,950 hours were provided from 85 nonprofessional volunteers as of June 30, 2021.

In-kind revenue for the year ended on June 30, 2021 that are recorded in the statement of activities are as follows:

Donated facilities	\$	48,000
Donated service		4,500
Donated supplies		<u>3,109</u>
Total in-kind contributions	\$	<u><u>55,609</u></u>

**NOTE 4 – OPERATING AGREEMENT WITH THE CITY**

Effective July 1, 2019, 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, 2024. 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 \$825,000 for each fiscal year through June 30, 2024. The Operation Payment will be adjusted annually as the cost of living in San Jose has increased over the preceding base period as shown by the CPI for the San Francisco-Oakland-San Jose area limited to 3% annually.

**NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects HSJ’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Cash and cash equivalents	\$	222,905
Accounts receivable		43,665
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions		<u>(154,183)</u>
Financial assets available for general expenditure within one year	\$	<u><u>112,387</u></u>

\$112,387 of financial assets are available to cover the HSJ’s liquidity needs. In addition, HSJ has a five-year operating contract with the City. Under the contract, the City will provide \$825,000 to HSJ each year condition on the operation of the Museum through June 30, 2024. The contract payment will be adjusted annually to meet increase in cost of living in San Jose limited to 3%. HSJ has a goal to maintain sufficient financial assets on hands, which consists of cash, short-term investments, and receivables, to meet the total of projected management and fundraising expenses, which are expected to be consistent next year, thus approximately \$464,707. Based on the projected estimate, HSJ has sufficient liquid assets to cover its current liabilities.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property, equipment, related accumulated depreciation, and depreciation expense is as follows:

Leasehold improvements	\$	1,346,746
Office furniture and equipment		450,423
Museum equipment		<u>94,326</u>
Total property and equipment		1,891,495
Less: accumulated depreciation		<u>(1,394,617)</u>
Property and equipment, net	\$	<u><u>496,878</u></u>

Depreciation expense for the year ended June 30, 2021 is \$63,062.

**NOTE 7 – CONCENTRATION OF CREDIT RISK**

*FASB ASC 825* requires disclosure of significant concentrations of credit risk arising from all financial instruments. Financial instruments that potentially subject HSJ to concentrations of credit risk are primarily cash and accounts receivable. HSJ places its cash in banks that are insured in limited amounts by the U.S. Government. Due to operational requirements, HSJ's checking and other deposit accounts may be maintained with a balance in excess of the \$250,000 federally insured limit. As of June 30, 2021, the uninsured amount was \$136,401.

**NOTE 8 – CONTINGENCIES**

Conditions contained within the various grants awarded to HSJ 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, HSJ 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 9 – 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 the year ended June 30, 2021, HSJ made \$6,069 in contributions to the plan.

**NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS – PURPOSE AND TIME RESTRICTED**

For the year ended June 30, 2021 the HSJ’s net assets with donor restrictions are as follows:

<u>Purpose of restriction</u>	<u>06/30/2020</u>	<u>Additions</u>	<u>Releases</u>	<u>06/30/2021</u>
FY21 - 22 Valley Event	\$ 32,000	\$ -	\$ -	\$ 32,000
Printer's Guild	7,186	112	-	7,298
Peralta Fallon Tours	954	49,046	(252)	49,748
2021 Halloween & Holiday light shows	-	10,000	-	10,000
BAYMEC Exhibit	-	1,500	(1,500)	-
COVID-19	-	57,170	(57,170)	-
COVID-19 - PPP loan	-	130,000	(130,000)	-
Education	-	30,000	-	30,000
Marketing collateral	-	10,000	-	10,000
Mitchell car restoration	-	3,500	-	3,500
O'Brien's	-	2,500	-	2,500
Pacific Hotel Signs	-	15,000	(8,200)	6,800
Peralta Adobe Restoration	-	111,600	(111,600)	-
REO car restoration	-	7,200	(4,864)	2,336
School Education Programs	-	19,345	(19,345)	-
Total	\$ <u>40,140</u>	\$ <u>446,973</u>	\$ <u>(332,930)</u>	\$ <u>154,183</u>

**NOTE 11 – ENDOWMENT FUND**

HSJ accounts for its endowment under the provisions established by FASB Staff Position 117-1, “*Endowments of Not-for-Profit Organizations; Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, (UPMIFA) and Enhanced Disclosures for All Endowment funds.*” This standard provides guidance on the net asset classification of donor restricted endowment funds and enhanced disclosures required for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006.

*Interpretation of Relevant Law*

The Board of Directors of HSJ has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, HSJ classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the endowment fund that is not classified in net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by HSJ in a manner consistent with SPMIFA.

HSJ has an endowment fund called the San Jose Historical Museum Fund. The purpose of the endowment fund is to promote, receive and accept gifts from members of 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.

**NOTE 11 – ENDOWMENT FUND (continued)**

As required by generally accepted accounting principles, net assets with donor restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In accordance with SPMIFA, HSJ considers the following factors in making a determination to accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policy.

*Investment Return Objectives, Risk Parameters and Strategies*

HSJ 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, HSJ 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*

HSJ’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 net asset without donor restriction.

*Funds with Deficiencies*

Occasionally, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain in perpetual duration. These deficiencies result from unfavorable market fluctuations during the year. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets without donor restrictions. No such deficiencies were noted during year ending June 30, 2021.

Endowment fund positions are as follows:

Cash in certificate of deposit	\$	23,544
Cash in checking		<u>114,881</u>
Total endowment fund	\$	<u><u>138,425</u></u>

Change in endowment fund are as follows:

Balance at 07/01/2020	\$	127,226
Adjustments		11,199
Investment earnings		117
Distributions		<u>(117)</u>
Balance at 06/30/2021	\$	<u><u>138,425</u></u>

Endowment investment earning is as follows:

Interest	\$	117
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**NOTE 12 – LINE OF CREDIT**

HSJ has a line of credit with Heritage Bank providing up to \$40,000 through June 10, 2022. Borrowings are at variable rate of 2.50% plus the index rate 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. There was no balance due as of June 30, 2021.

**NOTE 13 – LOAN PAYABLE**

HSJ has a loan with Northern California Grantmakers providing up to \$50,000 through December 12, 2020. Borrowings are at a fixed rate of 2.5%. As of June 30, 2021, \$50,000 had been drawn down and \$23,809 was outstanding. The entire outstanding amount is due on or before April 15, 2022.

**NOTE 14 –PAYROLL PROTECTION PROGRAM**

The Paycheck Protection Program (PPP) Flexibility Act (the Flexibility Act) was signed into law on June 5, 2020, which extended the deferral payment period from six months after the loan disbursement date until the date on which the loan can be forgiven. A borrower could apply for the loan forgiveness if a borrower meets the criteria under which the loan can be forgiven. Once the loan is forgiven, a borrower recognizes the loan as revenue.

On June 8, 2020, HSJ obtained the loan under PPP. The loan was provided by WebBank for \$130,000. The loan and related interest were forgiven in full as of June 30, 2021, and recorded as a support on the statement of activities.

**NOTE 15 – CORRECTION OF AN ERROR**

It was determined that a conditional grant was incorrectly recorded as revenue and accounts receivable during the year ended June 30, 2020. Therefore, a correction was made to reduce net assets as of June 30, 2020, for \$850,000.

**NOTE 16 – SUBSEQUENT EVENTS**

Management of HSJ has reviewed the results of operations for the period of time from its year end, June 30, 2021 through July 27, 2022, 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.



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