

Silicon Valley Creates

Financial Statements

June 30, 2016
(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Silicon Valley Creates
San Jose, California

We have audited the accompanying financial statements of Silicon Valley Creates (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2016, 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 (the "U.S."); 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 U.S. 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 Silicon Valley Creates as of June 30, 2016, 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 U.S.

Report on Summarized Comparative Information

We have previously audited Silicon Valley Creates' 2015 financial statements, and our report dated October 26, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

October 24, 2016

Silicon Valley Creates
Statement of Financial Position
June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 696,938	\$ 427,681
Accounts receivable	57,406	24,780
Grants receivable, current portion	677,136	755,705
Pledges receivable	26,000	4,100
Donated software to be distributed, current portion	40,445	44,345
Prepaid expenses	9,554	15,723
Total current assets	1,507,479	1,272,334
Property and equipment, net	52,845	30,345
Other assets		
Grants receivable, net of current portion	35,000	200,000
Donated software to be distributed, net of current portion	364,012	399,103
Endowment investments	887,009	933,899
Total other assets	1,286,021	1,533,002
Total assets	\$ 2,846,345	\$ 2,835,681
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 36,894	\$ 77,612
Grants payable	51,300	171,000
Accrued liabilities	82,282	100,726
Deferred revenue	63,209	62,490
Due to other organizations	50,340	19,165
Total current liabilities	284,025	430,993
Net assets		
Unrestricted	44,820	22,691
Temporarily restricted	1,539,550	1,404,047
Permanently restricted	977,950	977,950
Total net assets	2,562,320	2,404,688
Total liabilities and net assets	\$ 2,846,345	\$ 2,835,681

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

Silicon Valley Creates
Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenue					
Grants and contributions	\$ 319,030	\$ 1,676,596	\$ -	\$ 1,995,626	\$ 2,142,896
Fees and service contracts	655,503	-	-	655,503	394,833
Net realized and unrealized gains (losses)	(53,108)	-	-	(53,108)	13,072
Interest and dividends	21,644	-	-	21,644	21,907
Contributions in-kind	10,000	-	-	10,000	6,453
Net assets released from restrictions	<u>1,541,093</u>	<u>(1,541,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,494,162</u>	<u>135,503</u>	<u>-</u>	<u>2,629,665</u>	<u>2,579,161</u>
Functional expenses					
Program services	<u>1,949,752</u>	<u>-</u>	<u>-</u>	<u>1,949,752</u>	<u>2,032,753</u>
Support services					
Management and general	360,775	-	-	360,775	342,685
Fundraising	<u>161,506</u>	<u>-</u>	<u>-</u>	<u>161,506</u>	<u>134,852</u>
Total support services	<u>522,281</u>	<u>-</u>	<u>-</u>	<u>522,281</u>	<u>477,537</u>
Total functional expenses	<u>2,472,033</u>	<u>-</u>	<u>-</u>	<u>2,472,033</u>	<u>2,510,290</u>
Change in net assets	22,129	135,503	-	157,632	68,871
Net assets, beginning of year	<u>22,691</u>	<u>1,404,047</u>	<u>977,950</u>	<u>2,404,688</u>	<u>2,335,817</u>
Net assets, end of year	<u>\$ 44,820</u>	<u>\$ 1,539,550</u>	<u>\$ 977,950</u>	<u>\$ 2,562,320</u>	<u>\$ 2,404,688</u>

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

Silicon Valley Creates
Statement of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Program services	Support services		2016 Total	2015 Total
		Management and general	Fundraising		
Personnel expenses					
Salaries	\$ 676,114	\$ 207,624	\$ 96,023	\$ 979,761	\$ 914,992
Employee benefits	59,165	24,700	7,933	91,798	87,273
Payroll taxes	54,923	16,363	6,724	78,010	70,747
Total personnel expenses	790,202	248,687	110,680	1,149,569	1,073,012
Professional services	490,696	56,085	24,761	571,542	459,648
Grant and contract expense	394,010	-	-	394,010	711,463
Occupancy	57,486	13,779	7,612	78,877	104,830
Printing and publications	46,500	133	11,888	58,521	21,613
Events	50,607	-	-	50,607	12,122
Donated software distributed	25,065	-	-	25,065	-
Telephone	14,815	2,735	1,480	19,030	14,865
Depreciation	13,389	3,096	1,724	18,209	18,803
Conferences and meetings	7,940	6,754	29	14,723	17,264
Investment fees	-	14,069	-	14,069	11,853
Decrease in value of donated software	13,926	-	-	13,926	-
Postage and shipping	11,568	532	290	12,390	2,902
Membership dues	6,050	4,704	-	10,754	2,184
Donated goods and services	10,000	-	-	10,000	7,026
Supplies	4,953	1,225	1,321	7,499	5,258
Equipment maintenance and rent	4,603	944	521	6,068	5,022
Bank fees	2,858	1,628	928	5,414	4,399
Travel	2,757	2,498	-	5,255	7,925
Insurance	2,033	1,642	272	3,947	4,685
Miscellaneous	114	2,264	-	2,378	11,707
Advertising	180	-	-	180	10,204
Bad debts	-	-	-	-	3,505
	<u>\$ 1,949,752</u>	<u>\$ 360,775</u>	<u>\$ 161,506</u>	<u>\$ 2,472,033</u>	<u>\$ 2,510,290</u>
Percentage of total	<u>79 %</u>	<u>14 %</u>	<u>7 %</u>	<u>100 %</u>	

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

Silicon Valley Creates
Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 157,632	\$ 68,871
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	18,209	18,803
Net realized and unrealized losses (gains)	53,108	(13,072)
Donated software distributed	25,065	-
Decrease in value of donated software	13,926	-
Changes in operating assets and liabilities		
Accounts receivable	(32,626)	17,420
Grants receivable	243,569	(105,638)
Pledges receivable	(21,900)	(4,100)
Prepaid expenses	6,169	9,170
Accounts payable	(40,718)	23,068
Grants payable	(119,700)	54,860
Accrued liabilities	(18,444)	(1,979)
Deferred revenue	719	18,115
Due to other organizations	<u>31,175</u>	<u>19,165</u>
Net cash provided by operating activities	<u>316,184</u>	<u>104,683</u>
Cash flows from investing activities		
Proceeds from sales of investments	288,385	345,825
Purchase of investments	(294,603)	(399,097)
Purchase of property and equipment	<u>(40,709)</u>	<u>(9,016)</u>
Net cash used in investing activities	<u>(46,927)</u>	<u>(62,288)</u>
Net increase in cash and cash equivalents	269,257	42,395
Cash and cash equivalents, beginning of year	<u>427,681</u>	<u>385,286</u>
Cash and cash equivalents, end of year	<u>\$ 696,938</u>	<u>\$ 427,681</u>

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

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

Silicon Valley Creates (the "Organization") is building a network of leaders who care about the cultural and aesthetic quality of life in Silicon Valley. Our mission is to ignite investment and engagement in our creative culture through programs and initiatives that build the capacity of our creative sector, raise its value and visibility and increase access to arts and creativity.

As cultural stewards, Silicon Valley Creates serves as a collaborative leader and co-creator of ideas, programs and partnerships, convener and connector of artists, leaders, and organizations, resource builder of relationships, information, and services and informed champions and strategic investor in our cultural ecosystem.

Anchored in research and relevancy, Silicon Valley Creates focuses on: 1) *participatory arts* aligned with our DIY (do it yourself) culture; 2) *cultural heritage* in service to our international community; 3) *children's creativity* as a way of nurturing our youth's healthy development; 4) *innovative ideas, partnerships, and art forms* as a claim to the future; and 5) *place making* as a means of fostering our community's identity and the deepening of connections.

2. PROGRAM SERVICES

Silicon Valley Creates has a series of mission-aligned programs and initiatives that build the capacity of the creative sector, raise its value and visibility and increase access to arts and creativity.

The Organization builds the creative sector's capacity by: 1) providing local grants, workshops and management tools; 2) nurturing the next generation of leaders through genARTS; 3) conducting research studies of relevance to civic and arts leaders; and 4) leading the development of the Creative Center at Japantown Square.

Silicon Valley Creates raises value and visibility of the creative sector by: 1) publishing *Content Magazine*; 2) promoting arts and cultural events through *social media and LiveSV*; 3) showcasing local artists through the *Artist Laureate* and *Poet Laureate* programs; and 4) convening *Pick Up Parties* and *Content Labs*.

The Organization increases access to arts and creativity by: 1) developing a hub of digital media *Studios* for teens; 2) connecting teachers to arts education offerings through *ArtsEdConnect*; 3) infusing arts and creativity into the *Women and Children's Center at VMC*; and 4) licensing the *Artsopolis* event calendar to over 50 U.S. regions and beyond.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Silicon Valley Creates have been prepared on the accrual basis of accounting, 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.
- *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.

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, 2015, from which the summarized information was derived.

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 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.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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.

Accounts receivable

The Organization utilizes the reserve method of accounting for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. As of June 30, 2016 and 2015, the Organization has an allowance of doubtful accounts of \$0 and \$0, respectively.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable

The Organization considers all grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Pledges receivable

Unconditional promises to give (pledges), less an allowance for uncollectible amounts, are recognized as contribution support in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Present value is measured using a risk-adjusted discount rate of return at initial recognition and is not revised later. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 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 estimated useful lives of the assets, which range from 3 to 7 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2016 and 2015, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2016 and 2015 was \$63,585 and \$62,017, respectively.

Revenue recognition and deferred revenue

The Organization recognizes support and revenue on the accrual basis of accounting.

Grants - Revenue from grants which have been classified as "exchange transactions" are recognized as revenue in the period in which the service is provided. Deferred revenue represents advances of resources or revenue received in advance of the earnings process being completed.

Service contracts - Revenue from service contracts is recognized when all of the following conditions are met:

- Persuasive evidence of an arrangement exists

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

- Delivery has occurred
- The fee is fixed or determinable
- Collection is probable

Silicon Valley Creates enters into arrangements where it is obligated to deliver multiple products and/or services (multiple elements). In these arrangements, total revenue for the contract is allocated among the elements based on the sales price of each element when sold separately (vendor-specific objective evidence). Revenue from multi-year licensing arrangements is accounted for as deferred revenue and recognized as revenue ratably over the contract coverage period.

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. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

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.

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 support services benefited. Indirect expense allocations are based on salary expense.

Silicon Valley Creates
Notes to Financial Statements
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(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Silicon Valley Creates 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.

Accounting principles generally accepted in the United States of America 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 files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended June 30, 2013 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended June 30, 2012 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2016 and 2015 were \$180 and \$10,204, 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, 2016, for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 24, 2016.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

4. GRANTS RECEIVABLE

Grants receivable consist of the following:

	2016	2015
Receivable in one year or less	\$ 677,136	\$ 755,705
Receivable in one to five years	35,000	200,000
	\$ 712,136	\$ 955,705

The \$35,000 long term grant receivable is due in the year ending June 30, 2018. Any discount calculated for the present value of the payment would be immaterial and therefore no amount has been recorded.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Furniture and equipment	\$ 83,124	\$ 83,124
Computer equipment and software	167,124	165,421
Construction in progress	39,006	-
	289,254	248,545
Accumulated depreciation	(236,409)	(218,200)
	\$ 52,845	\$ 30,345

Depreciation expense for the years ended June 30, 2016 and 2015 was \$18,209 and \$18,803, respectively.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

6. ENDOWMENT INVESTMENTS

Endowment investments consist of the following:

	<u>2016</u>	<u>2015</u>
Equities	\$ 622,318	\$ 664,934
Fixed government securities	148,381	140,641
Restricted cash	38,407	52,516
Fixed income corporate bonds and notes	56,084	52,141
Fixed income asset backed securities	18,173	19,244
Fixed income preferred securities	2,201	2,774
Accrued interest	<u>1,445</u>	<u>1,649</u>
	<u>\$ 887,009</u>	<u>\$ 933,899</u>

Investment earnings (losses) during the year consist of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 20,287	\$ 21,907
Net realized and unrealized gains (losses)	<u>(53,108)</u>	<u>13,072</u>
	(32,821)	34,979
Investment fees	<u>(14,069)</u>	<u>(11,853)</u>
	<u>\$ (46,890)</u>	<u>\$ 23,126</u>

The following table sets forth by level, within the fair value hierarchy, the Organization assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 622,318	\$ -	\$ -	\$ 622,318
Fixed government securities	-	148,381	-	148,381
Restricted cash	38,407	-	-	38,407
Fixed income corporate bonds and notes	-	56,084	-	56,084
Fixed income asset backed securities	-	18,173	-	18,173
Fixed income preferred securities	2,201	-	-	2,201
Accrued interest	<u>1,445</u>	<u>-</u>	<u>-</u>	<u>1,445</u>
	<u>\$ 664,371</u>	<u>\$ 222,638</u>	<u>\$ -</u>	<u>\$ 887,009</u>

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

6. ENDOWMENT INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 664,934	\$ -	\$ -	\$ 664,934
Fixed government securities	-	140,641	-	140,641
Restricted cash	52,516	-	-	52,516
Fixed income corporate bonds and notes	-	52,141	-	52,141
Fixed income asset backed securities	-	19,244	-	19,244
Fixed income preferred securities	2,774	-	-	2,774
Accrued interest	<u>1,649</u>	<u>-</u>	<u>-</u>	<u>1,649</u>
	<u>\$ 721,873</u>	<u>\$ 212,026</u>	<u>\$ -</u>	<u>\$ 933,899</u>

7. DONATED SOFTWARE TO BE DISTRIBUTED

1stACT Silicon Valley received a donation of various Microsoft software programs in 2010 valued at \$456,825. This donated software was transferred to Silicon Valley Creates as part of the merger with Arts Council Silicon Valley in 2013. The Microsoft software is available for distribution at the discretion of Silicon Valley Creates to recipients who meet the specific "eligible charitable organization" or "eligible educational user" requirements as defined by Microsoft. Silicon Valley Creates began redistributing the software to their grantees in July, 2015 as part of its grant agreements. During the years ended June 30, 2016 and 2015, the Organization distributed software of \$25,065 and \$0, respectively, and recorded a decrease in fair value of \$13,926 and \$0, respectively. As of June 30, 2016 and 2015 the value of the software yet to be distributed is \$404,457 and \$443,448, respectively.

8. LINE OF CREDIT

The Organization has a revolving line of credit with the bank for a maximum borrowing of \$100,000 that expires on June 25, 2018. Payments are due on demand with interest payable monthly on the outstanding balance at the daily adjusted LIBOR rate plus three percent. The rate is 6.5% and there is no outstanding balance as of June 30, 2016.

Silicon Valley Creates
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
General operating support in future periods	\$ 345,422	\$ 475,000
Community grants program	448,828	296,298
Donated software to be distributed	404,457	443,448
Youth Voices / Teen Studio program	237,595	35,000
genARTS Silicon Valley	103,248	21,433
Creative Center for Arts	-	87,368
Content Magazine	-	44,500
ArtsEdConnect program	-	1,000
	<u>\$ 1,539,550</u>	<u>\$ 1,404,047</u>

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2016</u>	<u>2015</u>
Community grants program	\$ 546,698	\$ 481,906
Youth Voices/ Teen Studio Program	342,905	154,711
Creative Center for Arts	137,369	42,631
Content Magazine	112,000	38,500
genArts Silicon Valley	53,184	23,606
Donated software to be distributed	38,991	-
ArtsEdConnect program	19,643	23,000
Children's Creativity Collaborative	5,803	65,000
Valley Medical Center Women and Children's Center	-	369,432
Arts Accelerator	-	130,000
Artsopolis marketing partnership	-	100,000
Artist and Poet Laureate	-	53,750
Endowment accumulated earnings appropriated for expenditure	-	31,940
BuddaBoom program	-	25,000
Children's initiatives	-	19,240
Endowment investment fees	-	11,853
Workshops	-	2,551
General operating support released from time restriction	<u>284,500</u>	<u>49,666</u>
	<u>\$ 1,541,093</u>	<u>\$ 1,622,786</u>

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10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	2016	2015
Endowment investments	\$ 887,009	\$ 933,899
Appropriations in excess of the corpus*	37,018	37,018
Accumulated investment loss**	53,923	7,033
	\$ 977,950	\$ 977,950

* Appropriations in excess of the corpus are the result of the appropriation for the year ended June 30, 2015 based on 7% of fair value of the endowment assets of the prior 12 quarters, a portion of which exceeded the accumulated earnings as of June 30, 2016. Appropriations in excess of the corpus totaled \$37,018 as of June 30, 2016.

** Accumulated investment loss below the corpus totaled \$53,923 as of June 30, 2016.

11. CONTRIBUTIONS IN-KIND

In-kind contributions received were as follows:

	2016	2015
Donated rent	\$ -	\$ 6,453
Donated services	10,000	-
	\$ 10,000	\$ 6,453

12. RETIREMENT PLAN

Silicon Valley Creates has a defined contribution plan for all full-time employees who have completed one year of service and all part-time employees who have completed 1,000 hours of service. Benefit payments are calculated based on the employees' compensation. The funding policy of Silicon Valley Creates is to make monthly contributions. Silicon Valley Creates' retirement plan, placed on hold for ten months of 2010 fiscal year due to budget constraints, has remained in a frozen state for the June 30, 2016 and 2015 fiscal years by vote of the Board. No employer contributions were made for the years ended June 30, 2016 and 2015.

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13. COMMITMENTS AND CONTINGENCIES

Contingencies

Grants and contracts awarded to Silicon Valley Creates 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.

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.

Operating lease commitments

The Organization rented 5,809 square feet of office space at the rate of \$9,584 per month under a non-cancelable operating lease that terminated in November 30, 2014. In September 2014, the Organization signed an agreement for new office space. The agreement is month-to-month and commenced December 2014. Rental expense for the years ended June 30, 2016 and 2015 was \$78,877 and \$104,830, respectively.

14. CONCENTRATIONS

Silicon Valley Creates relies on funding received from the County of Santa Clara Transient Occupancy Tax (TOT). The voters in Santa Clara County by Measure A, ratified in 1988, directed TOT funds to promote art and culture in the county. Guests generate this tax when staying in hotels in the unincorporated areas of the county. Nationally and in California, these funds support local art and culture. For the year ended June 30, 2016 and 2015, funding received as a result of TOT revenue consisted of 12% and 23% of total support and revenue.

The Organization had grants receivable from two grantors representing 43% and 38% of the total grants receivable at June 30, 2016. The Organization had grant revenue from one of those grantors plus two other different grantors representing 20%, 18% and 16% of the total grant revenue for the year ended June 30, 2016.

The Organization had grants receivable from two grantors representing 52% and 42% of the total grants receivable at June 30, 2015. The Organization had grant revenue from two of those grantors representing 30%, 28% and 11% of the total grant revenue for the year ended June 30, 2015.

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15. ENDOWMENT

The Silicon Valley Arts Fund (SVAF) was started in 1992 with an investment of approximately \$950,000 as part of a major effort to support the arts in Santa Clara County. The SVAF was an endowed fund that was held in trust and managed by the Community Foundation of Santa Clara County. The SVAF continued to grow to approximately \$13,000,000. The trust was allocated to various arts organizations in the Silicon Valley. Silicon Valley Creates (formerly Arts Council Silicon Valley) was one of the eleven organizations that received funds from the SVAF.

Between the founding of the SVAF and 2010, two of the initial recipient arts organizations went out of business. The remaining nine recipients of the SVAF met throughout 2009 and 2010 to consider the SVAF goals and review options per the original agreement. After serious consideration, they unanimously decided to exercise independent oversight of the SVAF assets. On June 24, 2010 Arts Council Silicon Valley's board signed a termination agreement with Silicon Valley Community Foundation (formerly Community Foundation of Santa Clara County). Therefore, as of June 30, 2011, Silicon Valley Creates (formerly Arts Council Silicon Valley) took possession of its portion of the endowment to control and manage, and recorded it at the fair value of \$1,045,792. Of the \$1,045,792 received, \$977,950 was permanently restricted and \$67,842 was temporarily restricted (accumulated earnings). The endowment funds are held at an independent investment company in an investment portfolio that the Organization's board oversees. Silicon Valley Creates' board is continuing the revenue payout policies established by the original donors and is using the endowment proceeds to support its core support of the arts.

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

Interpretation of relevant law

The Board of Directors of Silicon Valley Creates has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Silicon Valley Creates classifies as permanently restricted net assets (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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

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15. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets.

During the year ended June 30, 2013, Silicon Valley Creates borrowed from its Endowment Fund for operating cash flow needs during the transition period. Silicon Valley Creates resolved to cease any future borrowings from the Endowment Fund and established a schedule to repay the outstanding borrowings. Those borrowings have been repaid in full as of June 30, 2015.

Appropriations in excess of the corpus are the result of the appropriation for the year ended June 30, 2015 based on 7% of fair value of the endowment assets of the prior 12 quarters, a portion of which exceeded the accumulated earnings as of June 30, 2015. Appropriations in excess of the corpus totaled \$37,018 as of June 30, 2016. Accumulated investment loss below the corpus totaled \$53,923 as of June 30, 2016 (see Note 10).

Return objectives and risk parameters

Silicon Valley Creates has adopted investment policies for endowment assets to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the Organization.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, Silicon Valley Creates relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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15. ENDOWMENT (continued)

Spending policy

For the purpose of making distributions, the Fund shall make use of a total-return-based spending policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments.

The Board may, at its discretion, authorize disbursement each year up to 7% of the fair market value (determined on the average fair market value of the prior 12 quarters through the fiscal year preceding the fiscal year in which the distribution is planned) from donor-restricted endowment funds. In the event that income from a donor-restricted endowment fund exceeds 5% in any given year, the Board shall have the discretion whether to appropriate for expenditure such excess up to an amount not to exceed seven percent (7%) of the donor-restricted endowment fund's average fair market value of the prior 12 quarters as described above. For the purposes of this paragraph the term "income" shall include, but not be limited to interest, dividends and appreciation of assets within the donor-restricted endowment fund. The Board may also at its discretion authorize appropriations above the 7% if special circumstances arise. However, no appropriation should impair the fair value of the original gift. The provisions herein shall at all times be subject to the donor's restrictions, unless modified as provided in UPMIFA, and shall at all times be subject to the prudence standards of UPMIFA. The Investment Committee will review its spending assumptions annually for the purpose of deciding whether any changes require amending the Fund's spending policy, its target asset allocation, or both.

The Board authorized an appropriation of 7% of the donor-restricted endowment fund's average fair value of the prior 12 quarters for the year ended June 30, 2015 in order to expedite repayment of the endowment internal borrowings such that it exceeded the original gift. The Organization plans to have the endowment corpus of \$977,950 fully restored by June 30, 2017.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>					
	<u>Accumulated investment loss</u>	<u>Appropriations in excess of the corpus</u>	<u>Internal borrowings</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (53,923)	\$ (37,018)	\$ -	\$ -	\$ 977,950	\$ 887,009

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>					
	<u>Accumulated investment loss</u>	<u>Appropriations in excess of the corpus</u>	<u>Internal borrowings</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,033)	\$ (37,018)	\$ -	\$ -	\$ 977,950	\$ 933,899

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15. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

	Unrestricted					Total
	Accumulated investment loss	Appropriations in excess of the corpus	Internal borrowings	Temporarily restricted	Permanently restricted	
Balance, June 30, 2015	\$ (7,033)	\$ (37,018)	\$ -	\$ -	\$ 977,950	\$ 933,899
Interest and dividends	20,287	-	-	-	-	20,287
Net realized and unrealized losses	(53,108)	-	-	-	-	(53,108)
Investment fees	(14,069)	-	-	-	-	(14,069)
Balance, June 30, 2016	<u>\$ (53,923)</u>	<u>\$ (37,018)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>	<u>\$ 887,009</u>

Changes in endowment net assets for the fiscal year ended June 30, 2015 is as follows:

	Unrestricted					Total
	Accumulated investment loss	Appropriations in excess of the corpus	Internal borrowings	Temporarily restricted	Permanently restricted	
Balance, June 30, 2014	\$ -	\$ -	\$ (112,176)	\$ 1,781	\$ 977,950	\$ 867,555
Interest and dividends	-	-	-	19,240	-	19,240
Interfund interest	-	-	-	2,667	-	2,667
Net realized and unrealized gains (losses)	(7,033)	-	-	20,105	-	13,072
Investment fees	-	-	-	(11,853)	-	(11,853)
Amounts appropriated for expenditure	-	(37,018)	-	(31,940)	-	(68,958)
Internal borrowings payment from appropriations	-	-	68,958	-	-	68,958
Internal borrowings payment from operations	-	-	43,218	-	-	43,218
Balance, June 30, 2015	<u>\$ (7,033)</u>	<u>\$ (37,018)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>	<u>\$ 933,899</u>

16. ARTS PARTNERS ENDOWMENT FUND TRUST

Silicon Valley Creates (formerly Arts Council Silicon Valley) is the recipient of investment earnings on approximately \$500,000 of endowment funds held in trust by the Arts Partners Endowment Fund as of June 30, 2016 and 2015. These funds are not reflected in the accompanying statement of financial position, as Silicon Valley Creates does not exercise control over these monies. The trust was established with funds from the National Endowment for the Arts, the Community Foundation, the David and Lucile Packard Foundation, the William and Flora Hewlett Foundation and other contributors. During the years ended June 30, 2016 and 2015 distributions received of these funds totaled \$27,925 and \$27,925, respectively, and were reported as grants and contributions in the statement of activities.