

**Silicon Valley Creates**

Financial Statements

June 30, 2018

(With Comparative Totals for 2017)



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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, 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. 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, 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.

## Report on Summarized Comparative Information

We have previously audited Silicon Valley Creates' 2017 financial statements, and our report dated November 6, 2017 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, 2017, 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<sup>LLP</sup>  
San Jose, California

November 15, 2018

Silicon Valley Creates  
Statement of Financial Position  
June 30, 2018  
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 369,445	\$ 991,844
Restricted cash for Creative Center at Japantown*	-	287,060
Investments designated for operating reserves	129,812	55,829
Accounts receivable	74,220	85,615
Grants receivable, current portion	751,000	500,406
Pledges receivable, current portion	261,000	22,000
Donated software to be distributed, current portion	-	5,000
Prepaid expenses	7,541	16,066
Deferred costs for Creative Center at Japantown*	852,158	539,353
Total current assets	2,445,176	2,503,173
Property and equipment, net	6,784	6,176
Other assets		
Construction in progress for Creative Center at Japantown*	5,952,268	959,600
Grants receivable, net of current portion	200,000	-
Pledges receivable, net of current portion	756,584	-
Donated software to be distributed, net of current portion	-	69,472
Endowment investments	977,950	977,950
Total other assets	7,886,802	2,007,022
Total assets	\$ 10,338,762	\$ 4,516,371
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 215,899	\$ 102,006
Grants payable	193,800	187,900
Accrued liabilities	420,236	216,795
Deferred revenue	9,445	74,023
Due to other organizations	150,783	63,189
Capital contributions for Creative Center at Japantown*	1,420,000	950,000
Total current liabilities	2,410,163	1,593,913
Net assets		
Unrestricted		
Undesignated	1,464,313	842,878
Board-designated operating reserves	129,812	55,829
Total unrestricted	1,594,125	898,707
Temporarily restricted	5,356,524	1,045,801
Permanently restricted	977,950	977,950
Total net assets	7,928,599	2,922,458
Total liabilities and net assets	\$ 10,338,762	\$ 4,516,371

\* See Note 3

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

Silicon Valley Creates  
Statement of Activities  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Support and revenue					
Grants and contributions	\$ 417,926	\$ 3,068,785	\$ -	\$ 3,486,711	\$ 2,200,428
Donated land lease	-	3,100,000	-	3,100,000	-
Fees and service contracts	429,423	-	-	429,423	633,481
Contributions in-kind	40,805	-	-	40,805	201,820
Realized and unrealized gains (losses)	(209)	49,904	-	49,695	94,803
Interest and dividends	1,953	23,143	-	25,096	23,998
Net assets released from restrictions	<u>1,931,109</u>	<u>(1,931,109)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,821,007</u>	<u>4,310,723</u>	<u>-</u>	<u>7,131,730</u>	<u>3,154,530</u>
Functional expenses					
Program services	<u>1,699,601</u>	<u>-</u>	<u>-</u>	<u>1,699,601</u>	<u>2,329,504</u>
Support services					
Management and general	333,041	-	-	333,041	332,489
Fundraising	<u>106,731</u>	<u>-</u>	<u>-</u>	<u>106,731</u>	<u>132,399</u>
Total support services	<u>439,772</u>	<u>-</u>	<u>-</u>	<u>439,772</u>	<u>464,888</u>
Total functional expenses	<u>2,139,373</u>	<u>-</u>	<u>-</u>	<u>2,139,373</u>	<u>2,794,392</u>
Change in net assets from operations	681,634	4,310,723	-	4,992,357	360,138
Other income, net	<u>13,784</u>	<u>-</u>	<u>-</u>	<u>13,784</u>	<u>-</u>
Change in net assets	695,418	4,310,723	-	5,006,141	360,138
Net assets, beginning of year	<u>898,707</u>	<u>1,045,801</u>	<u>977,950</u>	<u>2,922,458</u>	<u>2,562,320</u>
Net assets, end of year	<u>\$ 1,594,125</u>	<u>\$ 5,356,524</u>	<u>\$ 977,950</u>	<u>\$ 7,928,599</u>	<u>\$ 2,922,458</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, 2018  
(With Comparative Totals for 2017)

	Program Services	Support Services		2018 Total	2017 Total
		Management and General	Fundraising		
Personnel expenses					
Salaries	\$ 434,660	\$ 174,381	\$ 76,385	\$ 685,426	\$ 816,726
Employee benefits	43,509	21,164	7,025	71,698	86,167
Payroll taxes	36,133	13,705	5,905	55,743	65,216
Total personnel expenses	<u>514,302</u>	<u>209,250</u>	<u>89,315</u>	<u>812,867</u>	<u>968,109</u>
Grant and contract expense	531,570	-	-	531,570	691,165
Professional services	308,220	73,072	4,036	385,328	518,350
Printing and publications	116,967	-	-	116,967	90,174
Occupancy	56,163	17,229	7,706	81,098	69,793
Decrease in value of donated software	74,472	-	-	74,472	329,190
Events	26,438	-	-	26,438	22,822
Membership dues	13,387	4,566	2,155	20,108	3,941
Conferences and meetings	10,265	4,658	65	14,988	30,579
Miscellaneous	9,065	4,995	90	14,150	5,905
Telephone	7,424	2,222	1,040	10,686	16,152
Equipment maintenance and rent	5,300	1,670	735	7,705	5,619
Supplies	5,316	1,598	345	7,259	5,762
Advertising	7,076	-	-	7,076	4,392
Donated services and supplies	-	7,000	-	7,000	3,500
Travel	4,942	876	-	5,818	2,788
Bank fees	2,883	1,767	520	5,170	5,712
Insurance	1,851	3,041	242	5,134	3,389
Depreciation	3,442	1,011	460	4,913	9,422
Postage and shipping	518	86	22	626	4,608
Bad debts	-	-	-	-	2,226
Donated software distributed	-	-	-	-	794
	<u>\$ 1,699,601</u>	<u>\$ 333,041</u>	<u>\$ 106,731</u>	<u>\$ 2,139,373</u>	<u>\$ 2,794,392</u>
Percentage of total	<u>79 %</u>	<u>16 %</u>	<u>5 %</u>	<u>100.0 %</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, 2018  
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 5,006,141	\$ 360,138
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	4,913	9,422
Loss on disposal of property and equipment	729	-
Gain on extinguishment of liability	(14,514)	-
Net realized and unrealized gains	(65,154)	(109,146)
Donated software distributed	-	794
Decrease in value of donated software	74,472	329,190
Deferred in-kind services for Creative Center at Japantown*	(33,805)	(198,320)
Donated land lease	(3,100,000)	-
Proceeds from contributions restricted for Creative Center at Japantown	(250,973)	-
Changes in operating assets and liabilities		
Accounts receivable	11,395	(28,209)
Grants receivable	(450,594)	211,730
Pledges receivable	(995,584)	4,000
Prepaid expenses	8,525	(6,511)
Deferred costs for Creative Center at Japantown*	(279,000)	(341,033)
Accounts payable	(37,642)	65,112
Grants payable	5,900	136,600
Accrued liabilities	(121,143)	(31,600)
Deferred revenue	(64,578)	10,814
Due to other organizations	87,594	12,849
Net cash provided by (used in) operating activities	<u>(213,318)</u>	<u>425,830</u>
Cash flows from investing activities		
Proceeds from sales of investments	623,536	451,569
Purchase of investments	(558,382)	(433,364)
Funding for operating reserves	(73,983)	(55,829)
Purchase of property and equipment	(6,250)	(1,758)
Payments for construction in progress for Creative Center at Japantown*	(1,402,035)	(754,482)
Net cash used in investing activities	<u>(1,417,114)</u>	<u>(793,864)</u>
Cash flows from financing activities		
Capital contributions for Creative Center at Japantown*	470,000	950,000
Proceeds from contributions restricted for Creative Center at Japantown	250,973	-
Net cash provided by financing activities	<u>720,973</u>	<u>950,000</u>
Net increase (decrease) in cash and cash equivalents	(909,459)	581,966
Cash and cash equivalents, beginning of year	<u>1,278,904</u>	<u>696,938</u>
Cash and cash equivalents, end of year	<u>\$ 369,445</u>	<u>\$ 1,278,904</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, 2018  
(With Comparative Totals for 2017)

	2018	2017
Cash and cash equivalents consisted of the following:		
Cash and cash equivalents	\$ 369,445	\$ 991,844
Restricted cash for Creative Center at Japantown*	-	287,060
	\$ 369,445	\$ 1,278,904

Supplemental schedule of noncash investing and financing activities

Construction in progress included in accounts payable and accrued liabilities	\$ 490,633	\$ 287,060
* See Note 3		

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

Silicon Valley Creates  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

1. NATURE OF OPERATIONS

Silicon Valley Creates (the "Organization") envisions a vibrant community fueled by a dynamic and diverse arts and culture ecosystem. The mission of the Organization is to accelerate Silicon Valley's creative culture through programs and initiatives that build the capacity of our arts and culture ecosystem, raise the value and visibility of our creative sector and increase access to arts and creativity.

As venture culturists, the Organization's role is that of resource builder, investor, incubator and steward of Silicon Valley's unique arts ecosystem. The Organization primarily serve Santa Clara County arts organizations with less than two million dollars in revenue and secondarily serves Silicon Valley's larger ecosystem of creative talent, opinion leaders, and consumers of the arts.

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 for the Arts (CCA) at Japantown Square. The CCA will provide below market rents and shared services to non-profit arts organizations.

The Organization raises value and visibility of the creative sector by: 1) publishing Content Magazine; 2) promoting arts and cultural events through social media; 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) and infusing arts and creativity into the Women and Children's Center at Valley Medical Center.

3. CREATIVE CENTER FOR THE ARTS (CCA)

Silicon Valley Creates entered into a long-term land lease with the City of San Jose that was finalized and executed on April 10, 2018, for the purpose of building the Creative Center on a City owned site in Japantown.

Silicon Valley Creates plans to form a Delaware limited liability company (the "LLC") for the purpose of constructing and holding a community arts center in Japantown, San Jose before breaking ground in 2019.

Silicon Valley Creates intends to be the managing member of this non-profit LLC and for other 501(c)(3) nonprofit organization to be members.

Silicon Valley Creates  
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3. CREATIVE CENTER FOR THE ARTS (CCA) (continued)

Even though the LLC had not yet formed as of June 30, 2018, there were transactions that were recorded in Silicon Valley Creates' accounting records that relate to the Creative Center at Japantown Square, LLC project. These transactions will be run through the LLC once it is formed and have been included in Silicon Valley Creates' assets and liabilities as of June 30, 2018 as follows:

	2018	2017
Assets		
Restricted cash for Creative Center at Japantown	\$ -	\$ 287,060
Deferred costs for Creative Center at Japantown	852,158	539,353
Construction in progress for Creative Center at Japantown	5,952,268	959,600
	6,804,426	1,786,013
Liabilities		
Capital contributions for Creative Center at Japantown	(1,420,000)	(950,000)
Total	\$ 5,384,426	\$ 836,013

During the year ended June 30, 2018, the Organization received a contribution of land for the long-term lease located in San Jose, California. The fair value of the contribution was determined based on the market value of rent in the surrounding area and the square footage of the land. For the year ended June 30, 2018, the fair value of the Ground Lease contribution was \$3,100,000.

Upon the formation of the LLC the assets and liabilities related to the Creative Center will be transferred to the LLC and included in the consolidated financial statements of the Organization.

4. 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.

Silicon Valley Creates  
Notes to Financial Statements  
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(With Comparative Totals for 2017)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *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, 2017, 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.

Restricted cash

Restricted cash is limited in use to the payment of costs relating to the Creative Center at Japantown (see Note 3). Restricted cash for Creative Center at Japantown was \$0 and \$287,060 as of June 30, 2018 and 2017, respectively.

Silicon Valley Creates  
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4. 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, 2018 and 2017, the Organization has an allowance of doubtful accounts of \$0 and \$0, respectively.

Silicon Valley Creates  
Notes to Financial Statements  
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4. 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.

Deferred costs

During the year ended June 30, 2018 and 2017, the Organization incurred start-up costs and costs related to drafting a ground lease agreement for the Creative Center at Japantown project which have been accounted for as deferred costs (see Note 3).

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, 2018 and 2017, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2018 and 2017 was \$50,365 and \$67,677, respectively.

Revenue recognition and deferred revenue

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

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Notes to Financial Statements  
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

*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
- Delivery has occurred
- The fee is fixed or determinable
- Collection is reasonably assured

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.

Unconditional promises to give for the use of long-lived assets for a specific number of periods in which the donor retains legal title may be received in connection with leases or similar leases but have no payments. Amounts reported as contributions are recorded at the lower of the fair value of the long-lived asset or the lease.

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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended June 30, 2014 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, 2018 and 2017 were \$7,076 and \$4,392, respectively.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2018, 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 15, 2018.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation. These reclassifications had no effect on prior year reported change in net assets.

5. INVESTMENTS DESIGNATED FOR OPERATING RESERVES

The Organization started funding an operating reserve account during the year ended June 30, 2017. As of June 30, 2018 and 2017 the balance was \$129,812 and \$55,829, respectively.

6. GRANTS RECEIVABLE

Grants receivable consist of the following:

	2018	2017
Receivable in one year or less	\$ 751,000	\$ 500,406
Receivable in one to five years	200,000	-
	\$ 951,000	\$ 500,406

7. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2018	2017
Receivable in one year or less	\$ 261,000	\$ 22,000
Receivable in one to five years	780,000	-
	1,041,000	22,000
Less: discount to present value	(23,416)	-
	\$ 1,017,584	\$ 22,000

As of June 30, 2018, \$261,000 of contributions receivable is expected to be collected in less than one year and \$780,000 is expected to be collected in one to five years. The Organization periodically evaluates the collectability of its contributions receivable based on historical experience. Uncollectible contributions are expected to be insignificant; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2018 and 2017.

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7. PLEDGES RECEIVABLE (continued)

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as pledges receivable in the appropriate net asset category. For promises expected to be collected in more than one year a present value discount is estimated based on the risk-free rate (appropriate U.S. Treasury Bond Rate) at the time of the promise as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2018 ranged between 1.81% and 2.34%

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Furniture and equipment	\$ 79,890	\$ 83,124
Computer equipment and software	174,964	170,029
	254,854	253,153
Accumulated depreciation	(248,070)	(246,977)
	\$ 6,784	\$ 6,176

Depreciation expense for the years ended June 30, 2018 and 2017 was \$4,913 and \$9,422, respectively.

9. DONATED SOFTWARE TO BE DISTRIBUTED

IstACT 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 was available for distribution at the discretion of Silicon Valley Creates to recipients who met 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, 2018 and 2017, the Organization distributed software of \$0 and \$794, respectively. During the year ended June 30, 2017, the donated Microsoft software products were no longer perpetually updated to be the latest version, and the Organization recorded a decrease in the fair value of software of \$74,472 and \$329,190, during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017 the value of the software yet to be distributed was \$0 and \$74,472, respectively.

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10. ENDOWMENT INVESTMENTS

Endowment investments consist of the following:

	<u>2018</u>	<u>2017</u>
Equities	\$ 687,068	\$ 714,451
Fixed government securities	198,066	163,711
Fixed income corporate bonds and notes	74,701	66,019
Fixed income asset backed securities	7,209	21,041
Cash and cash equivalents	6,120	8,379
Fixed income preferred securities	2,820	2,814
Accrued interest	<u>1,966</u>	<u>1,535</u>
	<u>\$ 977,950</u>	<u>\$ 977,950</u>

Investment earnings during the year consist of the following:

	<u>2018</u>	<u>2017</u>
Realized and unrealized gains	\$ 66,086	\$ 109,146
Interest and dividends	<u>23,143</u>	<u>21,967</u>
	89,229	131,113
Investment fees	<u>(15,246)</u>	<u>(14,343)</u>
	<u>\$ 73,983</u>	<u>\$ 116,770</u>

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10. ENDOWMENT INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 687,068	\$ -	\$ -	\$ 687,068
Fixed government securities	-	198,066	-	198,066
Fixed income corporate bonds and notes	-	74,701	-	74,701
Fixed income asset backed securities	-	7,209	-	7,209
Cash and cash equivalents	6,120	-	-	6,120
Fixed income preferred securities	2,820	-	-	2,820
Accrued interest	<u>1,966</u>	<u>-</u>	<u>-</u>	<u>1,966</u>
	<u>\$ 697,974</u>	<u>\$ 279,976</u>	<u>\$ -</u>	<u>\$ 977,950</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 714,451	\$ -	\$ -	\$ 714,451
Fixed government securities	-	163,711	-	163,711
Fixed income corporate bonds and notes	-	66,019	-	66,019
Fixed income asset backed securities	-	21,041	-	21,041
Cash and cash equivalents	8,379	-	-	8,379
Fixed income preferred securities	2,814	-	-	2,814
Accrued interest	<u>1,535</u>	<u>-</u>	<u>-</u>	<u>1,535</u>
	<u>\$ 727,179</u>	<u>\$ 250,771</u>	<u>\$ -</u>	<u>\$ 977,950</u>

11. LINE OF CREDIT

The Organization has a revolving line of credit with the bank for a maximum borrowing of \$100,000, and a maturity date of June 25, 2020. Payments are due on demand with interest payable monthly on the outstanding balance at the daily adjusted LIBOR rate plus three percent. The rate was 8.25% and 6.5% as of June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, there was no outstanding balance.

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12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Creative Center for the Arts	\$ 4,116,584	\$ 401,312
General operating support in future periods	575,000	-
Community grants program	525,052	417,235
Youth voices / Teen Studio program	88,763	97,026
Donated software to be distributed	-	74,472
Content Magazine	32,500	-
genARTS Silicon Valley	<u>18,625</u>	<u>55,756</u>
	<u>\$ 5,356,524</u>	<u>\$ 1,045,801</u>

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

	<u>2018</u>	<u>2017</u>
Creative Center for the Arts	\$ 662,385	\$ 598,688
General operating support released from time restriction	171,355	375,000
Community grants program	854,706	891,309
Youth Voices / Teen Studio Program	33,013	140,569
Donated software to be distributed	74,472	329,984
Endowment accumulated earnings appropriated for operating reserve	73,047	55,829
Content Magazine	25,000	62,500
genARTS Silicon Valley	<u>37,131</u>	<u>47,492</u>
	<u>\$ 1,931,109</u>	<u>\$ 2,501,371</u>

13. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Endowment investments	<u>\$ 977,950</u>	<u>\$ 977,950</u>
	<u>\$ 977,950</u>	<u>\$ 977,950</u>

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14. CONTRIBUTIONS IN-KIND

In-kind contributions received were as follows:

	2018	2017
Donated services - CCA	\$ 33,805	\$ 198,320
Donated services - other	7,000	-
Donated supplies	-	3,500
	\$ 40,805	\$ 201,820

15. 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, 2018 and 2017 fiscal years by vote of the Board. No employer contributions were made for the years ended June 30, 2018 and 2017.

16. 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

In September 2014, the Organization signed an agreement to rent 3,911 square feet of office space in San Jose, California. The agreement is month-to-month and commenced December 2014. Rental expense for the years ended June 30, 2018 and 2017 was \$81,098 and \$78,419, respectively.

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17. 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 years ended June 30, 2018 and 2017, funding received as a result of TOT revenue consisted of 8% and 28% of total support and revenue, respectively.

The Organization had contribution and grant revenue from three donors representing 48%, 15%, and 13% of the total grant revenue for the year ended June 30, 2018. The Organization had grants and pledges receivable from three grantors representing 49%, 24%, and 20% of total receivables at June 30, 2018.

The Organization had grant revenue from two donors representing 46% and 28% of the total grant revenue for the year ended June 30, 2017. The Organization had grants receivable from two grantors representing 43% and 38% of the total receivables at June 30, 2017.

18. ENDOWMENT

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.

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18. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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

- (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.

As of June 30, 2016, the endowment corpus of \$977,950 exceeded the fair value of the underlying investments by \$90,941. During the year ended June 30 2017, the Organization restored the corpus through repayment and earnings.

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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18. 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.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>	<u>\$ 977,950</u>

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>	<u>\$ 977,950</u>

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18. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2017	\$ -	\$ -	\$ 977,950	\$ 977,950
Interest and dividends	-	23,143	-	23,143
Net realized and unrealized gains	-	65,150	-	65,150
Investment fees	-	(15,246)	-	(15,246)
Total investment return	-	73,047	-	73,047
Amounts appropriated for expenditure	-	(73,047)	-	(73,047)
Balance, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>	<u>\$ 977,950</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>			
	<u>Accumulated Investment Loss</u>	<u>Appropriations in Excess of the Corpus</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Balance, June 30, 2016	\$ (53,923)	\$ (37,018)	\$ -	\$ 977,950
Interest and dividends	-	-	21,967	-
Net realized and unrealized gains	53,923	7,018	48,205	-
Investment fees	-	-	(14,343)	-
Total investment return	<u>53,923</u>	<u>7,018</u>	<u>55,829</u>	<u>-</u>
Repayment	-	30,000	-	-
Appropriation of net assets	-	-	(55,829)	-
	<u>53,923</u>	<u>37,018</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,950</u>

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19. 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, 2018 and 2017. 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, 2018 and 2017, distributions received of these funds totaled \$29,766 and \$29,989, respectively, and were reported as grants and contributions in the statement of activities.

20. RELATED PARTY TRANSACTIONS

The Organization received approximately \$1,072,000 and \$29,000 in contributions from members of the Board of Directors for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, outstanding contributions receivable from members of the Board of Directors amounted to approximately \$41,000 and \$10,000, respectively.