Silicon Valley Creates

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)

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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, 2019, 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, 2019, 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.

Change in Accounting Principle

As described in Note 4 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Silicon Valley Creates's 2018 financial statements, and our report dated November 15, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.

Armanino LLP

Armanino LLP
San Jose, California

December 11, 2019

Silicon Valley Creates
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 113,898	$ 369,445
Investments designated for operating reserves	129,812	129,812
Accounts receivable	51,916	74,220
Grants receivable, current portion	711,000	751,000
Pledges receivable, current portion	273,500	261,000
Prepaid expenses	12,947	7,541
Deferred costs for Creative Center at Japantown*	1,003,213	852,158
Total current assets	2,296,286	2,445,176
Property and equipment, net	7,515	6,784
Other assets		
Construction in progress for Creative Center at Japantown*	5,976,775	5,952,268
Grants receivable, net of current portion	-	200,000
Pledges receivable, net of current portion	525,394	756,584
Endowment investments	976,804	977,950
Total other assets	7,478,973	7,886,802
Total assets	$ 9,782,774	$ 10,338,762
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 95,287	$ 215,899
Grants payable	222,660	193,800
Accrued liabilities	74,109	420,236
Line of credit	100,000	-
Deferred revenue	8,129	9,445
Due to other organizations	158,584	150,783
Capital contributions for Creative Center at Japantown*	1,420,000	1,420,000
Total current liabilities	2,078,769	2,410,163
Net assets		
Without donor restrictions		
Undesignated	1,701,691	1,464,313
Board-designated operating reserves	129,812	129,812
Total without donor restrictions	1,831,503	1,594,125
With donor restrictions		
Restricted for a specified purpose	4,694,552	4,781,524
Restricted to passage of time	200,000	575,000
Held in perpetuity	977,950	977,950
Total net assets with donor restrictions	5,872,502	6,334,474
Total net assets	7,704,005	7,928,599
Total liabilities and net assets	$ 9,782,774	$ 10,338,762

* 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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue				
Grants and contributions	$ 227,790	$ 1,241,975	$ 1,469,765	$ 3,486,711
Fees and service contracts	397,878	-	397,878	429,423
Interest and dividends	1,338	22,143	23,481	25,096
Realized and unrealized gains (losses), net	(9)	(23,289)	(23,298)	49,695
Donated land lease	-	-	-	3,100,000
Contributions in-kind	-	-	-	40,805
Other income, net	-	-	-	13,784
Net assets released from restrictions	1,702,801	(1,702,801)	-	-
Total support and revenue	2,329,798	(461,972)	1,867,826	7,145,514
Functional expenses				
Program services	1,661,819	-	1,661,819	1,699,601
Management and general	308,053	-	308,053	333,041
Fundraising	122,548	-	122,548	106,731
Total functional expenses	2,092,420	-	2,092,420	2,139,373
Change in net assets	237,378	(461,972)	(224,594)	5,006,141
Net assets, beginning of year	1,594,125	6,334,474	7,928,599	2,922,458
Net assets, end of year	$ 1,831,503	$ 5,872,502	$ 7,704,005	$ 7,928,599

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

Silicon Valley Creates
Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Program Services	Support Services: Management and General	Support Services: Fundraising	2019 Total	2018 Total
Personnel expenses					
Salaries	$ 330,411	$ 136,629	$ 99,625	$ 566,665	$ 685,426
Employee benefits	27,252	17,193	9,686	54,131	71,698
Payroll taxes	26,409	10,483	6,739	43,631	55,743
Total personnel expenses	384,072	164,305	116,050	664,427	812,867
Grant and contract expense	726,338	1,000	-	727,338	531,570
Professional services	273,227	96,278	1,992	371,497	385,328
Printing and publications	92,892	-	-	92,892	116,967
Occupancy	68,007	13,436	2,516	83,959	81,098
Conferences and meetings	45,888	8,723	132	54,743	14,988
Membership dues	21,512	2,499	-	24,011	20,108
Miscellaneous	15,014	5,248	82	20,344	14,150
Equipment maintenance and rent	8,930	2,420	269	11,619	7,705
Telephone	4,476	3,395	807	8,678	10,686
Supplies	5,732	1,142	128	7,002	7,259
Insurance	2,465	3,979	106	6,550	5,134
Bank fees	2,483	3,174	340	5,997	5,170
Advertising	5,243	-	-	5,243	7,076
Depreciation	2,748	2,186	118	5,052	4,913
Travel	2,731	-	-	2,731	5,818
Postage and shipping	61	268	8	337	626
Decrease in value of donated software	-	-	-	-	74,472
Events	-	-	-	-	26,438
Donated services and supplies	-	-	-	-	7,000
	$ 1,661,819	$ 308,053	$ 122,548	$ 2,092,420	$ 2,139,373
Percentage of total	79 %	15 %	6 %	100 %	

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

Silicon Valley Creates
Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (224,594)	$ 5,006,141
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	5,052	4,913
Loss on disposal of property and equipment	-	729
Gain on extinguishment of liability	-	(14,514)
Net realized and unrealized (gains) losses	9,100	(65,154)
Decrease in value of donated software	-	74,472
Deferred in-kind services for Creative Center at Japantown*	-	(33,805)
Donated land lease	-	(3,100,000)
Proceeds from contributions restricted for Creative Center at Japantown*	(208,810)	(250,973)
Changes in operating assets and liabilities		
Accounts receivable	22,304	11,395
Grants receivable	240,000	(450,594)
Pledges receivable	218,690	(995,584)
Prepaid expenses	(5,406)	8,525
Deferred costs for Creative Center at Japantown*	(151,055)	(279,000)
Accounts payable	(120,612)	(37,642)
Grants payable	28,860	5,900
Accrued liabilities	(346,127)	(121,143)
Deferred revenue	(1,316)	(64,578)
Due to other organizations	7,801	87,594
Net cash used in operating activities	(526,113)	(213,318)
Cash flows from investing activities		
Proceeds from sales of investments	450,053	623,536
Purchase of investments	(458,007)	(558,382)
Funding for operating reserves	-	(73,983)
Purchase of property and equipment	(5,783)	(6,250)
Payments for construction in progress for Creative Center at Japantown*	(24,507)	(1,402,035)
Net cash used in investing activities	(38,244)	(1,417,114)
Cash flows from financing activities		
Borrowings under line of credit agreement	100,000	-
Capital contributions for Creative Center at Japantown*	-	470,000
Proceeds from contributions restricted for Creative Center at Japantown*	208,810	250,973
Net cash provided by financing activities	308,810	720,973
Net decrease in cash and cash equivalents	(255,547)	(909,459)
Cash and cash equivalents, beginning of year	369,445	1,278,904
Cash and cash equivalents, end of year	$ 113,898	$ 369,445

Supplemental disclosure of cash flow information

Cash paid during the year for interest	$ 2,078	$ -

Supplemental schedule of noncash investing and financing activities

Construction in progress included in accounts payable and accrued liabilities	$ -	$ 490,633

* See Note 3

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

1. NATURE OF OPERATIONS

Silicon Valley Creates (the "Organization") envisions a vibrant community fueled by a dynamic and diverse arts and culture ecosystem that: 1) has the power to heal, transform lives and drive social change; 2) connects us to our heritage, humanity and each other; 3) helps shape and define our community; 4) fuels creativity, innovation and self expression; and 5) is vital to our social and economic well-being and integral to the healthy development of our children.

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 serves 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 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 Meet Ups.

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) providing Arts Access Grants to organizations serving high need communities; and 4) 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 for the purpose of developing a Creative Center on City-owned land in Japantown.

3. CREATIVE CENTER FOR THE ARTS (CCA) (continued)

Silicon Valley Creates may form a Delaware limited liability company (the "LLC") or other governance structure for the purpose of building and holding arts spaces in Japantown. Silicon Valley Creates may be the managing member of the non-profit LLC and other 501(c)(3) nonprofit organizations to be members.

Even though the LLC or other governance structures had not yet formed as of June 30, 2019, 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 or an alternative governance structure, once determined, and have been included in Silicon Valley Creates' assets and liabilities as follows:

	2019	2018
Assets		
Deferred costs for Creative Center at Japantown	$ 1,003,213	$ 852,158
Construction in progress for Creative Center at Japantown	5,976,775	5,952,268
	6,979,988	6,804,426
Liabilities		
Capital contributions for Creative Center at Japantown	(1,420,000)	(1,420,000)
	(1,420,000)	(1,420,000)
	$ 5,559,988	$ 5,384,426

The construction in progress costs consist of the following:

	2019	2018
Donated ground lease with City of San Jose	$ 3,100,000	$ 3,100,000
Capitalized construction costs for Creative Center at Japantown	2,876,775	2,852,268
	$ 5,976,775	$ 5,952,268

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 or another governance structure, the assets and liabilities related to the Creative Center will be transferred to the LLC or other governance structure, as determined, and will be 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 two classes: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - 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.
- *Net assets with donor restrictions* - 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. Net assets held in perpetuity include those assets which are subject to non-expiring restriction, such as endowments.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law.

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, 2018, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019 and 2018, the Organization has an allowance for doubtful accounts of $0 and $0, respectively.

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, 2019 and 2018, 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, 2019 and 2018, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2019 and 2018 was $44,243 and $50,365, respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 exits
- 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).

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions depending upon donor restrictions, if any. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

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.

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.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2019 and 2018 were $5,243 and $7,076, respectively.

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, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended June 30, 2015 and beyond remain subject to possible examination by the Franchise Tax Board.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

2. Enhancing disclosures about:

   a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.

   b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

   c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.

   d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.

   e. Methods used to allocate costs among program and support functions.

   f. Underwater endowment funds.

3. Reporting investment return net of external and direct internal investment expenses.

4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied to year ended June 30, 2018, with the option to omit the disclosures about liquidity and availability of resources for the prior year comparative period.

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, 2019 and 2018 the balance was $129,812.

6. GRANTS RECEIVABLE

Grants receivable consisted of the following:

	2019	2018
Receivable in one year or less	$ 711,000	$ 751,000
Receivable in one to five years	-	200,000
	$ 711,000	$ 951,000

7. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2019	2018
Receivable in one year or less	$ 273,500	$ 261,000
Receivable in one to five years	540,000	780,000
	813,500	1,041,000
Less discount to present value	(14,606)	(23,416)
	$ 798,894	$ 1,017,584

As of June 30, 2019, $273,500 of contributions receivable is expected to be collected in less than one year and $540,000 is expected to be collected in one to five years. The Organization periodically evaluates the collectability of its contributions receivables 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, 2019 and 2018.

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, 2019 ranged between 1.81% and 2.34%.

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Furniture and equipment	$ 79,890	$ 79,890
Computer equipment and software	180,747	174,964
	260,637	254,854
Accumulated depreciation	(253,122)	(248,070)
	$ 7,515	$ 6,784

Depreciation expense for the years ended June 30, 2019 and 2018 was $5,052 and $4,913, respectively.

9. ENDOWMENT INVESTMENTS

Endowment investments consisted of the following:

	2019	2018
Equities	$ 653,045	$ 687,068
Fixed government securities	204,149	198,066
Fixed income corporate bonds and notes	83,218	74,701
Fixed income asset backed securities	9,185	7,209
Cash and cash equivalents	21,255	6,120
Fixed income preferred securities	3,878	2,820
Accrued interest	2,074	1,966
	$ 976,804	$ 977,950

Investment returns during the year consisted of the following:

	2019	2018
Realized and unrealized gains (losses)	$ (9,133)	$ 66,086
Interest and dividends	22,143	23,143
	13,010	89,229
Investment fees	(14,156)	(15,246)
	$ (1,146)	$ 73,983

9. 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, 2019:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 653,045	$ -	$ -	$ 653,045
Fixed government securities	-	204,149	-	204,149
Fixed income corporate bonds and notes	-	83,218	-	83,218
Fixed income asset backed securities	-	9,185	-	9,185
Cash and cash equivalents	21,255	-	-	21,255
Fixed income preferred securities	3,878	-	-	3,878
Accrued interest	2,074	-	-	2,074
	$ 680,252	$ 296,552	$ -	$ 976,804

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

	Level 1	Level 2	Level 3	Fair Value
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	1,966	-	-	1,966
	$ 697,974	$ 279,976	$ -	$ 977,950

10. 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 8.5% and 7.75% as of June 30, 2019 and 2018, respectively. On March 29, 2019 the Organization drew the entire $100,000 balance. As of June 30, 2019 and 2018, the outstanding balance on the line of credit was $100,000 and $0, respectively. For the year ended June 30, 2019, the Organization incurred $2,166 of interest expense.

10. LINE OF CREDIT (continued)

The Organization is required to comply with certain financial and non-financial reporting covenants. The Organization was in compliance with all covenants as of and for the years ended June 30, 2019 and 2018.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Creative Center for the Arts	$ 4,010,394	$ 4,116,584
General operating and support in future periods	200,000	575,000
Community grants program	615,470	525,052
Youth voices / Teen Studio program	35,624	88,763
Content Magazine	7,500	32,500
genARTS Silicon Valley	26,710	18,625
Endowment investments held in perpetuity	977,950	977,950
Accumulated investment loss	(1,146)	-
	$ 5,872,502	$ 6,334,474

Net assets with donor restrictions released from restriction during the year were as follows:

	2019	2018
Creative Center for the Arts	$ 315,000	$ 662,385
General operating support released from time restriction	375,000	171,355
Community grants program	756,471	854,706
Youth voices / Teen Studio program	58,139	33,013
Donated software to be distributed	-	74,472
Endowment accumulated earnings appropriated for operating reserve	-	73,047
Content Magazine	50,775	25,000
Communications planning	50,000	-
Hammer Initiative	49,000	-
Network of services	25,000	-
genARTS Silicon Valley	23,416	37,131
	$ 1,702,801	$ 1,931,109

12. 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 net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions 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 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 net assets held in perpetuity balance. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are required to be reported in net assets with donor restrictions. Due to unrealized losses on equity securities within the endowment funds, during the year ended June 30, 2019, the fair value of donor-restricted endowment assets was $1,146 less than the net assets held in perpetuity balance as of June 30, 2019.

12. ENDOWMENT (continued)

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.

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.

12. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 976,804	$ 976,804

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 977,950	$ 977,950

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2018	$ -	$ 977,950	$ 977,950
Investment return			
Interest and dividends	-	22,143	22,143
Net realized and unrealized losses	-	(9,133)	(9,133)
Investment fees	-	(14,156)	(14,156)
Balance, June 30, 2019	$ -	$ 976,804	$ 976,804

12. ENDOWMENT (continued)

Endowment composition (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2017	$ -	$ 977,950	$ 977,950
Investment return			
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	$ -	$ 977,950	$ 977,950

13. CONTRIBUTIONS IN-KIND

In-kind contributions received consisted of the following:

	2019	2018
Donated services - CCA	$ -	$ 33,805
Donated services - other	-	7,000
	$ -	$ 40,805

14. 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, 2019 and 2018 fiscal years by vote of the Board. No employer contributions were made for the years ended June 30, 2019 and 2018.

15. 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 was month-to-month and commenced December 2014. The agreement ended on August 26, 2019. Subsequent to year-end, the Organization entered into a new lease agreement for its office in San Jose, California (see Note 20).

Rental expense for the years ended June 30, 2019 and 2018 was $83,959 and $81,098 respectively.

16. 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, 2019 and 2018, funding received as a result of TOT revenue consisted of 42% and 8% of total support and revenue, respectively.

The Organization had contribution and grant revenue from three donors representing 42%, 13%, and 10% of the total grant revenue for the year ended June 30, 2019. The Organization had grants and pledges receivable from three grantors representing 51%, 25%, and 20% of total receivables at June 30, 2019.

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% at June 30, 2018.

17. 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, 2019 and 2018 . 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, 2019 and 2018, distributions received of these funds totaled $29,471 and $29,766, respectively, and were reported as grants and contributions in the statement of activities.

18. RELATED PARTY TRANSACTIONS

The Organization received $30,410 and $1,072,000 in contributions from members of the Board of Directors for the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, outstanding contributions receivable from members of the Board of Directors amounted to $798,894 and $1,017,584, respectively.

19. LIQUIDITY

Silicon Valley Creates is substantially supported by restricted contributions. As part of Silicon Valley Creates' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, Silicon Valley Creates invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity needs Silicon Valley Creates can also draw upon its $100,000 business loan agreement.

The following reflects Silicon Valley Creates financial assets as of the financial statement date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

19. LIQUIDITY (continued)

A summary of liquidity as of June 30, 2019 is as follows:

Financial Assets	
Cash and cash equivalents	$ 113,898
Investments designated for operating reserves	129,812
Accounts receivable	51,916
Grants receivable, current portion	711,000
Pledges receivable, current portion	273,500
Pledges receivable, net of current portion	525,394
Endowment investments	976,804
	2,782,324
Less: amounts unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted for a specific purpose	(685,303)
Restricted for Creative Center at Japantown	(910,395)
Endowment assets held in perpetuity	(977,950)
	(2,573,648)
	$ 208,676

20. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2019, for potential recognition or disclosure in the financial statements.

The Organization entered into a new lease agreement where the Organization will occupy rent free in a new office location at South First Street, effective August 27, 2019. The new lease agreement is for one year and expires on August 31, 2020. After August 31, 2020, the lease term shall be on a month-to-month basis. The Organization will recognize $10,000 per month as an in-kind contribution starting August 27, 2019.

On September 30, 2019, the Organization paid off its outstanding line of credit balance in full.

Subsequent events have been evaluated through the date the financial statements became available to be issued, December 11, 2019.