

**MEXICAN AMERICAN COMMUNITY  
SERVICES AGENCY, INC.  
(A California Nonprofit Corporation)**

**AUDITED FINANCIAL STATEMENTS**

**For The Fiscal Year Ended  
June 30, 2008**

MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.  
For The Fiscal Year Ended June 30, 2008

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INTRODUCTION

OBJECTIVES OF THE AUDIT

The audit had the following objectives:

- To render an opinion as to whether the financial statements of the Agency present fairly its financial position and results of operations in conformity with generally accepted accounting principles applied consistently.
- To assess the adequacy of the Agency's internal accounting control systems and procedures for financial accounting and reporting purposes.
- To report on compliance with laws and regulations that may have a material effect on the financial statements and identify findings of noncompliance and questioned costs.
- To report on the Agency's schedule of federal awards showing total expenditures for each program.
- To recommend appropriate actions to correct any deficiencies noted in the course of the audit.

HIGHLIGHTS OF THE AUDIT

This section highlights significant findings and issues that have been identified by the audit and are discussed in the report.

- The auditor's report on the Agency's financial statements for the year ended June 30, 2008 is unqualified.
- No material weaknesses in the Agency's internal accounting control systems were noted.
- No material weaknesses in the Agency's internal accounting and administrative controls used in administering federal awards were noted.

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
Mexican American Community Services Agency, Inc.  
130 N. Jackson Avenue  
San Jose, CA 95116

I have audited the accompanying Statement of Financial Position of Mexican American Community Services Agency, Inc. (a California non-profit corporation) as of June 30, 2008, and the related Statement of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year comparative information has been derived from the Organizations unqualified financial statements at June 30, 2007 and my audit report dated December 5, 2007.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph presents fairly, in all material respects, the financial position of Mexican American Community Service Agency, Inc. as of June 30, 2008 and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated December 9, 2008 on my consideration of compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.



Joe J. Chaidez  
Certified Public Accountant  
December 9, 2008

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.  
Statement of Financial Position  
At June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008 Totals</u>	<u>2007 Totals</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents (Note 3)	\$ 107,493	\$ 3,846
Account Receivable – Medi-Cal Program	284,085	209,555
Grants Receivable (Note 5)	2,064,334	2,097,969
Prepaid and Other Current Assets	<u>175,764</u>	<u>112,740</u>
Total Current Assets	\$ 2,631,676	\$ 2,424,110
<u>LONG - TERM ASSETS</u>		
Other Receivables (Note 4)	822,004	1,385,430
Land, Building & Equipment – Net (Note 6)	<u>5,824,801</u>	<u>4,737,625</u>
TOTAL ASSETS	<u>\$ 9,278,481</u>	<u>\$ 8,547,165</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable - Trade	2,018,732	1,419,512
Other Current Payables	715,343	833,994
Accrued Expenditures (Note 7)	849,192	385,890
Current Portion of Long-term Debt	<u>120,395</u>	<u>116,784</u>
Total Current Liabilities	<u>3,703,662</u>	<u>2,756,180</u>
<u>LONG-TERM DEBT</u>		
Loan Payable - net (Note 8)	<u>2,027,904</u>	<u>2,147,398</u>
TOTAL LIABILITIES	<u>5,731,566</u>	<u>4,903,578</u>
<u>NET ASSETS</u>		
Unrestricted Assets	3,467,544	3,581,264
Restricted Assets (Note 11)	79,371	62,323
Contingencies (Note 9)	<u>-0-</u>	<u>-0-</u>
Total Net Assets	<u>3,546,915</u>	<u>3,643,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,278,481</u>	<u>\$ 8,547,165</u>

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

**MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.**  
**Statement of Activities**  
**For The Fiscal Year Ended June 30, 2008 and 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Totals</u>	<u>2007 Totals</u>
<b><u>SUPPORT AND REVENUES</u></b>					
<b>Public Support:</b>					
Contribution For Services	\$ 226,442		-0-	\$ 226,442	\$ 230,783
Special Events	175,562			175,562	199,237
Foundations/Corporate Support	536,581			536,581	406,311
Government Grants (Note 12)	5,213,618	-0-		5,213,618	4,704,152
<b>Other Income:</b>					
Program Service Fees - ADHC	824,784			824,784	791,003
Chartered Schools - ADA	2,855,001			2,855,001	2,705,243
Rent - Facility	207,485			207,485	170,339
Income From Fiscal Agencies	177,980			177,980	74,492
Other Income	<u>139,321</u>	<u>17,048</u>		<u>156,369</u>	<u>316,745</u>
<b>Total Support and Revenues</b>	<b><u>\$10,356,774</u></b>	<b><u>17,048</u></b>	<b><u>-0-</u></b>	<b><u>\$10,373,822</u></b>	<b><u>\$ 9,598,305</u></b>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Totals</u>	<u>2007 Totals</u>
<b><u>EXPENDITURES</u></b>					
<b>Program Services:</b>					
Adult Day Health Care	1,225,488			1,225,488	1,171,882
Youth, After School, and Chartered Schools	2,307,740			2,307,740	2,216,245
Early Child Education	<u>1,434,820</u>			<u>1,434,820</u>	<u>1,802,564</u>
<b>Total Program Services</b>	<u>7,843,211</u>	<u>-0-</u>	<u>-0-</u>	<u>7,843,211</u>	<u>7,871,455</u>
<b>Support Services:</b>					
Management and General	1,691,841			1,691,841	1,202,057
Fundraising	<u>363,784</u>			<u>363,784</u>	<u>381,960</u>
<b>Total Support Services</b>	<u>2,055,625</u>	<u>-0-</u>	<u>-0-</u>	<u>2,055,625</u>	<u>1,584,017</u>
<b>Total Expenditures</b>	<u>9,898,836</u>	<u>-0-</u>	<u>-0-</u>	<u>9,898,836</u>	<u>9,455,472</u>
Increase <Decrease> In Net Assets	457,938	17,048	-0-	474,986	142,833
Prior Period Adjustments (Note 16)	<571,658>			<571,658>	-0-
<b>Net Assets at Beginning of Year</b>	<u>3,581,264</u>	<u>37,952</u>	<u>24,371</u>	<u>3,643,587</u>	<u>3,500,754</u>
<b>Net Assets at End of Year</b>	<u>\$ 3,467,544</u>	<u>\$ 55,000</u>	<u>\$ 24,371</u>	<u>\$ 3,546,915</u>	<u>\$ 3,643,587</u>

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

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008 and 2007

<u>Cash Flows from Operating Activities:</u>	<u>2008</u>	<u>2007</u>
Change in Unrestricted Net Assets	\$ 474,986	\$ 142,833
Adjustments to Reconcile Net Assets to Net Cash Used by Operating Activities:		
Depreciation Expense	218,232	232,150
Increase <Decrease> in Accounts Receivable	<585,763>	459,127
Increase <Decrease> in Grants Receivable	<27,941>	<1,348,380>
Increase <Decrease> in Other Assets	63,024	31,069
Increase <Decrease> in Accounts Payable	480,569	1,225,918
Increase <Decrease> in Accrued Expenses	463,302	<232,601>
Increase <Decrease> in Other Payables	<u>438,529</u>	<u>&lt;406,790&gt;</u>
Net Cash Provided (used) By Operating Activities	<u>1,524,938</u>	<u>103,326</u>
 <u>Cash Flows From Investing Activities:</u>		
Purchase/Construction of Fixed Assets - Net	<u>&lt;1,305,408&gt;</u>	<u>&lt;2,113&gt;</u>
 <u>Cash Flows From Financing Activities</u>		
Proceeds from Borrowing	-0-	-0-
Payment on Long-term Debt	<u>&lt;115,883&gt;</u>	<u>&lt;199,330&gt;</u>
Net Cash Provided by Financing Activities	<u>&lt;115,883&gt;</u>	<u>&lt;199,330&gt;</u>
Increase in Cash & Cash Equivalent	103,647	<98,117>
Cash and Cash Equivalent – Beginning of Year	<u>3,846</u>	<u>101,963</u>
Cash and Cash Equivalent – End of Year	<u>\$ 107,493</u>	<u>\$ 3,846</u>
 <u>Supplemental Disclosure</u>		
Interest Paid During the Year Ended	<u>\$ 175,707</u>	<u>\$ 130,727</u>

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



MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.

Statement of Functional Expenses

For the Fiscal Year Ended June 30, 2008 and 2007

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>2008</u>	<u>2007</u>
<b><u>EXPENDITURES</u></b>					
Salaries and Wages	\$ 4,147,320	\$ 143,939	\$ 565,030	\$ 4,856,289	\$ 4,513,202
Fringe Benefits	1,084,147	31,076	222,831	1,338,054	1,207,671
Payroll Taxes	236,398	10,678	40,037	287,113	257,052
Contractual Services	170,040	885	205,281	376,206	199,086
Operating Expenses	61,971	13,361	4,675	80,007	78,985
Rent	376,289	13	116,079	492,381	393,394
Communications	64,691	6,258	9,042	79,991	93,439
Sub-Contract Fees	880,472	-0-	-0-	880,472	1,323,555
Equipment	69,569	1,926	16,778	88,273	110,164
Travel and Conferences	97,089	2,069	18,408	117,566	78,265
Interest Expenses	-0-	-0-	175,707	175,707	130,727
Program Expense	347,881	147,965	45,108	540,954	511,323
Other Expenses	<u>307,308</u>	<u>5,614</u>	<u>54,669</u>	<u>367,591</u>	<u>326,459</u>
Total before Depreciation	7,843,175	363,784	1,473,645	9,680,604	9,223,322
Depreciation	<u>36</u>	<u>-0-</u>	<u>218,196</u>	<u>218,232</u>	<u>232,150</u>
Total Expenditures	<u>\$ 7,843,211</u>	<u>\$ 363,784</u>	<u>\$ 1,691,841</u>	<u>\$ 9,898,836</u>	<u>\$ 9,455,472</u>

See accompanying notes in the financial statements.

Mexican American Community Services Agency, Inc.  
Statement of Functional Expenses – Program Services  
For the Fiscal Year Ended June 30, 2008

<u>EXPENDITURES</u>	<u>Adult Day Health Care</u>	<u>Early Child Education</u>	<u>Youth Center Delinquency, Intervention</u>	<u>Chartered Schools</u>	<u>Total</u>
Salaries and Wages	\$ 689,425	\$ 497,354	\$ 1,331,658	\$ 1,628,883	\$ 4,147,320
Fringe Benefits	176,485	159,155	300,337	448,170	1,084,147
Payroll Taxes	44,746	38,254	101,062	52,336	236,398
Contractual Services	20,966	16,391	113,047	19,636	170,040
Operating Expenses	1,937	8,956	21,997	29,081	61,971
Communications	6,540	13,284	32,201	12,666	64,691
Subcontract Fees	-0-	629,427	55,689	195,356	880,472
Equipment	3,858	1,875	36,550	27,286	69,569
Travel and Conferences	659	18,730	63,822	13,878	97,089
Bad Debts	-0-	-0-	-0-	-0-	-0-
Program Expenses	86,335	35,644	113,590	112,312	347,881
Rent	140,433	15,189	132,144	88,523	376,289
Other Expenses	<u>54,103</u>	<u>561</u>	<u>5,607</u>	<u>247,036</u>	<u>307,308</u>
Total before Depreciation	<u>\$ 1,225,488</u>	<u>\$ 1,434,820</u>	<u>\$ 2,307,704</u>	<u>\$ 2,875,165</u>	<u>\$ 7,843,175</u>

See accompanying notes in the financial statements.

MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008

Note 1. NATURE OF ACTIVITIES

General

Mexican American Community Services Agency, Inc. is a nonprofit corporation, incorporated in 1966 in the State of California. The agency is a community-based organization, with a history of community services for youth, families and seniors in Santa Clara primarily through the following programs:

Adult Day Health Care is a license adult day health care center (ADHC) serving the frail and impaired older adults who need health, therapeutic and social services in order to remain at home and delay institutional care. Transportation is available for those with no other means. Meals are served daily, supervised by a licensed dietician.

Youth Program Services are provided at several community centers, city libraries, and selected elementary and junior high schools. The Youth Opportunities Unlimited (YOU) and the Juntos En Cambio projects provide youth with an inter-connected chain of social services, community education, cultural events and recreational activities. The program also offers parenting workshops and participation in special events.

MACSA Youth Center is a 24,500 square foot multi-service complex for youth which includes a gymnasium, weight room, dance facility, a parent assistance center, media lab, stage, computer lab, counseling offices, and a teen clinic. Youth of all ages receive services in areas of: drop-out prevention, drug and gang prevention, job training, licensed day care, arts & crafts, drama, organized sports, computer literacy, personal development, academic enrichment, crisis counseling, health education and leadership development.

El Portal Leadership Academy – Established in 2001 in the City of Gilroy, California. El Portal aims to provide the Gilroy Unified School District's toughest to reach kids (80) with extra attention so that they master college prep material.

Academia Calmecac Chartered School – Established in 2002 in the City of San Jose, California. Calmecac aims to provide the East Side Unified School District kids (70) with extra attention so they may master college prep material.

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.

Notes to Financial Statements (Cont.)

For The Fiscal Year Ended June 30, 2008

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 17, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this new statement the Agency has reclassified its financial statements to present the three classes of net assets as required. Also, the agency has elected to use classified statement of financial position.

Unrestricted Net Assets

The unrestricted net assets are utilized to record certain donations and pledges, fundraising income and other forms of unrestricted revenue and expenditures related to the general operations and fundraising effort of the organization. Fixed assets are generally financed by the unrestricted fund and are therefore classified as unrestricted. The fund balance is expected to be utilized for the next year's operations.

Temporarily Restricted Net Assets

The temporarily restricted net assets are utilized to record resources received that are temporarily restricted as to the use by the donor or grantor. When the restriction expires, the net assets of this fund are generally reclassified to unrestricted net assets.

Permanently Restricted Net Assets

The permanently restricted net assets are utilized to report resources, if any, restricted by the grant or to provide a permanent source of income or to be permanently held and not sold.

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.

Notes to Financial Statements (Cont.)  
For The Fiscal Year Ended June 30, 2008

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions

Contributions are reported in accordance with SFAS No. 116. 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 and depending on whether the restrictions are met in the current period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restrictions has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restrictions is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Revenue Recognition

The Agency recognizes support and revenue on the accrual basis of accounting. Grant Revenue and program fees are recognized as revenue in the period in which the services is provided.

Tax Exempt Status

Mexican American Community Services Agency, Inc. is classified as a not-for-profit California corporation and has been granted exemption from federal and state income taxes under section 501 (c)(3) of the Internal Revenue Service code and Section 2371 (d) of the State of California Revenue and Taxation Code.

Use of Estimates

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

MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.

Notes to Financial Statements (Cont.)

For The Fiscal Year Ended June 30, 2008

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property and Equipment

It is the agency's policy to capitalize assets over \$ 2,500 or more whether purchased or donated. Fixed assets are recorded at cost or in the case of donated property, at their estimated fair market value at date of receipt. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged to operating expenses as incurred.

Expense Allocation

The costs of providing 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 supporting services benefitted. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Note 3. CASH AND EQUIVALENTS

The agency considers its cash on hand, cash in bank, and other short-term securities with terms to maturity of ninety days or less to be cash and cash equivalents.

	<u>2008</u>	<u>2007</u>
General Account	41,308	\$ -0-
Payroll Account	\$ 55,246	-0-
Endowment Account – E. Medina	7,609	193
Other Cash Accounts	<u>3,330</u>	<u>3,652</u>
Total Cash	<u>\$ 107,493</u>	<u>\$ 3,845</u>

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 4. OTHER ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Ketzal Corp. – Support Contribution (Note 16)	\$ -0-	\$ 571,658
Ketzal Corp. - Development Costs (Note 13)	<u>822,004</u>	<u>813,772</u>
Total	<u>\$ 822,004</u>	<u>\$ 1,385,430</u>

Note 5. GRANTS RECEIVABLE

City of San Jose – HNVF	\$ -0-	\$ 7,269
City of San Jose – Second Start	83,457	89,023
City of San Jose – General Fund	555,883	199,978
City of San Jose – CDBG	47,877	35,970
County of Santa Clara – GF	44,320	116,569
CA - Office of Family Planning	182,676	46,924
SCC– DOE/ Criminal Justice	34,120	37,874
SCC Social Services	22,172	40,116
DHS	83,102	63,937
Title I - Chartered Schools	18,627	35,535
Knight Foundation	121,526	70,663
CA Parks and Recreation	418,219	449,187
SCC - Calmecac	104,327	100,067
SCC First 5	134,490	447,623
SCC-El Portal	98,653	104,327
Other Receivables	114,885	<u>252,907</u>
Totals	\$ 2,064,334	<u>\$ 2,097,969</u>

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.

Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008

Note 6. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost less accumulated depreciation:

	<u>2008</u>	<u>2007</u>
Land– Street Reach	\$ 147,069	\$ 147,069
Land – Casa MACSA	437,282	437,282
Building – Casa MACSA	2,158,099	2,158,099
Building – Youth Center	3,209,328	3,209,328
Building – Street Reach	463,540	463,540
Construction in Progress - Gilroy School	2,095,687	790,279
Equipment, Office, Furniture	761,258	761,258
Vehicles	<u>305,569</u>	<u>305,569</u>
Total Property and Equit.	9,577,832	8,272,424
Less Accumulated Depreciation	<u>&lt;3,753,031&gt;</u>	<u>&lt;3,534,799&gt;</u>
Property – Net	<u>\$ 5,824,801</u>	<u>\$ 4,737,625</u>

Note 7. ACCRUED EXPENSES

	<u>2008</u>	<u>2007</u>
Wages Payable	\$ 139,127	\$ 135,297
Accrued Vacations Payable	120,179	112,404
Federal/State Taxes Payable	495,441	98,538
Other Accruals	<u>94,445</u>	<u>39,651</u>
Totals	<u>\$ 849,192</u>	<u>\$ 385,890</u>



MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.  
Notes to Financial Statements (Cont.)  
For The Fiscal Year Ended June 30, 2008

Note 8. LOANS PAYABLE

Loan payable to NCB Development Corp. in the amount of \$ 2,148,299. Loan bears interest at 6.58% per year. The loan is collateralized by land and buildings owned by the agency. The loan matures on December 31, 2014.

Future loan payments are as follows:

2009	\$ 120,395
2010	\$ 129,097
2011	\$ 137,799
2012	\$ 146,501
After	\$1,614,507

Note 9. COMMITMENTS AND CONTINGENCIES

Restriction on Support

The agency received loans, grants and contributions to construct Casa MACSA building and MACSA Youth Center. These grants, loans and contribution require the fulfillment of certain conditions from 5 years up to 20 years after the completion of construction as set forth in the instrument of loans and grants. Failure to fulfill the conditions may result in the return of the funds to grantors. Although that is a possibility, the Board of the Agency deems the contingency remote since by accepting the loans, grants and contributions, it has committed the agency to meet the conditions of the provisions.

El Portal Leadership

The agency received a grant from the State of California, Department of Parks and Recreation to construct a new charter school in Gilroy, CA. The Department of Parks and Recreation has an enforceable lien on the property for a term of 20 years. MACSA is responsible for the maintenance of the facility.

MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.

Notes to Financial Statements (Cont.)

For The Fiscal Year Ended June 30, 2008

Note 9. COMMITMENTS AND CONTINGENCIES

Restriction on Support (Cont)

The amount of subject to fulfillment of conditions primarily consists of the following:

Grantor	Amount	Expiration of Restriction
MACSA Youth Center		
State of California		
Dept. of Youth Authority	\$1,000,000	12/2014

Note 10. CONCENTRATION OF REVENUE SOURCES

Program Funding

Continued program funding is contingent upon the availability of funds from federal, state, and local funding sources and program performance. Periodic audits may be performed by granting agencies and certain costs may be questioned as not being reimbursable under the terms of the contracts. Such audits could lead to reimbursement to the granting agency.

State and Local Funding

During 2007/2008 77% of the agency's support was through grants and contracts with State and Local Governments. Non-renewal of these contracts could have an adverse effect on the agency's ability to continue in operations.

Note 11. RESTRICTED NET ASSETS

	<u>Beginning Balance</u>	<u>&lt;Released&gt; Increased</u>	<u>Ending Balance</u>
<u>Temporarily Restricted</u>			
The Packard Foundation	\$ 37,952	\$ 17,048	\$ 55,000
<u>Permanently Restricted</u>			
The Esther Medina Endowment	\$ 24,371	\$ -0-	\$ 24,371
Totals	\$ 62,323	\$ 17,048	\$ 79,371

MEXICAN AMERICAN COMMUNITY SERVICES, AGENCY, INC.

Notes to Financial Statements (Cont.)

For the Fiscal Year Ended June 30, 2008

Note 12. GOVERNMENT GRANTS

	<u>2008</u>	<u>2007</u>
City of San Jose – CDBG	257,218	252,785
Council on Aging– HHS	87,810	96,739
Council on Aging (Food)	5,624	5,650
City of Gilroy	10,727	21,432
Office of Family Planning	253,535	117,635
Challenge Program	171,288	99,150
Santa Clara – GF/Probations	635,776	914,425
City of San Jose – General Fund	732,022	665,780
City of San Jose – Others	76,671	54,324
Department of Education	182,279	449,999
Santa Clara County - First 5 (1)	848,833	1,363,361
Alum Rock School District	423,359	256,081
CA Parks and Recreation (2)	1,305,408	406,789
Others	<u>223,068</u>	<u>-0-</u>
Total	<u>\$5,213,618</u>	<u>\$4,704,152</u>

(1) Lead agency in the Alum Rock School District Partnership.

(2) Gilroy, CA School Project.

MEXICAN AMERICAN COMMUNITY SERVICES, AGENCY, INC.

Notes to Financial Statements (Cont.)

For the Fiscal Year Ended June 30, 2008

Note 13.

RELATED PARTY TRANSACTIONS

On June 28, 2001, the agency incorporated Ketzal Community Development, Inc. to become the sole owner of MACSA Las Mariposas a 66-unit-housing project. The majority of MACSA directors serve on Ketzal's board.

On July 27, 2001, the agency incorporated Las Golondrinas Housing Corporation. The agency is a 50 unit senior apartment project. The majority of MACSA directors serve on Las Golondrinas Board.

On June 30, 2006, the agency received a commitment from the Board of Directors of Ketzal Community Development (a related party) of \$600,00 as a community support contribution. The contribution will come from Ketzal's Las Mariposa's housing project. As of June 30, 2007 there was a balance of \$ 571,658.

As of June 30, 2008, the Agency had provided operating funds to Ketzal Community Development, Inc. (a related party) in the amount of \$ 813,772. This is to be repaid by Ketzal's Las Mariposas housing project.

Note 14.

UNION REPRESENTATION

The agency's non-exempt employees are represented by SEIU Local 715.

Note 15.

CASH FLOW

The agency has been experiencing cash flow problems. Management is working on plans that will improve the agency's cash flow. Part of that plan includes the sale of land and a building owned by the agency. As of the date of my audit report the sale had not been completed.

Note 16.

PRIOR PERIOD ADJUSTMENT

On June 30, 2008, the Agency wrote-off a \$ 571,658 commitment from Ketzal Community Development (a related party). The commitment was determined to be uncollectible.

Note 17.

PENSION PLAN

The agency has a tax - deferred plan qualified under Section 401 (k) of the Internal Revenue Code. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan account payable was \$ 636,107 as of June 30, 2008.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

To The Board of Directors  
Mexican American Community Service Agency, Inc.  
130 N. Jackson Avenue  
San Jose, CA 95116

I have audited the Financial Statements of Mexican American Community Service Agency, Inc. as of and for the year ended June 30, 2008, and have issued my report thereon dated December 9, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Mexican American Community Service Agency, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the attendance and fiscal reports and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

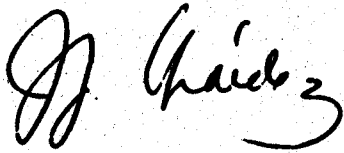
**Compliance**

As part of obtaining reasonable assurance about whether the Mexican American Community Service Agency, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective

of my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management, and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "J. Chaidez". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Joe J. Chaidez  
Certified Public Accountant  
December 9, 2008

**AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Mexican American Community Services Agency, Inc.  
130 N. Jackson Avenue  
San Jose, California 95116

Compliance

I have audited the compliance of Mexican American Community Services Agency, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Mexican American Community Services Agency, Inc.'s major federal programs are identified in the Schedule of Federal Expenditures. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mexican American Community Services Agency, Inc.'s management. My responsibility is to express an opinion on the agency's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mexican American Community Services Agency, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Mexican American Community Services Agency, Inc.'s compliance with those requirements.

In my opinion, Mexican American Community Services Agency, Inc. complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

The management of Mexican American Community Services Agency, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Mexican American Community Services Agency, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Joe J. Chaidez  
Certified Public Accountant  
December 9, 2008



**AUDITOR'S REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

To the Board of Directors  
Mexican American Community Services Agency, Inc.  
130 N. Jackson Avenue  
San Jose, California 95116

I have audited the financial statements of Mexican American Community Services Agency, Inc. for the year ended June 30, 2008 and have issued my report thereon dated December 9, 2008.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, Governmental Auditing Standards, issued by the comptroller general of the United States, and the provisions of Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Other Nonprofit Organizations". These standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The audit was made for the purpose of forming an opinion on the financial statements of Mexican American Community Services Agency, Inc. taken as a whole. The accompanying schedule of federal expenditures is presented for purpose of additional analysis and is not a required part of the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Joe J. Chaidez  
Certified Public Accountant  
December 9, 2008

MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ended June 30, 2008

Federal Grantor/Pass-Through Program/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures Recognized
U.S. Dept. of Housing and Urban Development (HUD)			
Pass through City of San Jose – Dept. of Neighborhood Preservation			
Community Development Block Grant	14.218	--	\$ 226,657
Welfare to Work		--	111,446
Senior Services		--	26,128
Pass through City of Gilroy -			
Community Development Block Grant Youth Center Services	14.218	--	<u>10,311</u>
Total HUD			<u>\$ 374,542</u>
Pass through County– Council on Aging –			
Silicon Valley:			
Adult Day Care	93.044	--	40,000
Personal Care	93.043		20,000
Transportation	93.044	--	15,001
Care Giver Support	93.052	--	15,000
NSIP - Nutrition	93.053	--	<u>5,624</u>
		Total	<u>\$ 95,625</u>
U.S. Department of Health Services			
Office of Family Planning	93.556	--	<u>\$ 253,535</u>

**MEXICAN AMERICAN COMMUNITY SERVICES AGENCY, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2008**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

1. The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2. Mexican American Community Services Agency, Inc. is classified as a not-for-profit corporation and has been granted exemption from federal and state income taxes under Section 501(c)(3) of the internal revenue service and Section 23701(d) of the State of California Revenue and Taxation Code.
3. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000. Mexican American Community Services Agency, Inc. qualified as a low risk auditee.

MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2008

**FINANCIAL STATEMENTS**

An unqualified opinion was issued for the agency's financial statements for the year ended June 30, 2008.

**Internal Control over Financial Reporting:**

- There were no material weaknesses identified.
- There were no reportable conditions identified that are considered to be material weaknesses.
- I did not note any noncompliance which would be material to the financial statements.

**FEDERAL AWARDS**

An unqualified opinion was issued for the agency's compliance over major programs.

**Internal control over major programs:**

- There were no material weaknesses identified.
- There were no reportable conditions identified that are not considered to be material weaknesses.
- There were no audit findings which need to be disclosed in accordance with section 510(a) of Circular A-133.

**MAJOR PROGRAM**

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Auditee qualified as a low-risk auditee.

**Identification of major programs:**

CFDA

14.218

Community Development

**MEXICAN AMERICAN COMMUNITY SERVICE AGENCY, INC.**

**Status of Prior Year's Findings  
For The Fiscal Year Ended June 30, 2008**

**DISPOSITION OF PRIOR YEAR'S FINDINGS**

Based on my review and testing of the agency's internal controls as required by OMB Circular A-133, the disposition of findings noted in the financial and compliance reports for the fiscal year ended June 30, 2007 are as follows:

There were no material reportable conditions identified by the June 30, 2007 audit reports.