

**BALLET SAN JOSE SILICON VALLEY**

**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009**

# **BALLET SAN JOSE SILICON VALLEY**

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## Independent Auditors' Report

The Board of Trustees  
Ballet San Jose Silicon Valley

We have audited the accompanying statement of financial position of Ballet San Jose Silicon Valley (a California nonprofit public benefit corporation) as of June 30, 2010 and the related statements of activities summary, activities detail, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals for June 30, 2009 are derived from financial statements that were audited by other auditors whose report dated October 29, 2009 on those statements included an explanatory paragraph that described their doubt about the Organization's ability to continue as a going concern.

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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of Ballet San Jose Silicon Valley as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*RINA accountancy corporation*  
Certified Public Accountants

San Francisco, California  
October 10, 2011

# BALLET SAN JOSE SILICON VALLEY

## STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 21,168	\$ 85,076
Accounts receivable, net	47,931	10,265
Grants and pledges receivable	31,530	110,000
Inventory	62,048	41,529
Prepaid expenses and deposit	3,834	76,658
Total current assets	166,511	323,528
<b>PROPERTY AND EQUIPMENT, NET</b>	772,422	897,985
<b>OTHER ASSETS:</b>		
Note receivable - related party	100,000	100,000
Restricted cash for endowment	0	70,000
Investments held in trust	90,722	88,856
Investments held in trust for endowment	179,065	32,604
Investments	31,808	50,014
Endowment investments - accumulated earnings	143	11,116
Total other assets	401,738	352,590
<b>TOTAL ASSETS</b>	\$ 1,340,671	\$ 1,574,103
<u>LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,295,337	\$ 618,969
Accrued expenses	208,935	120,925
Deferred production revenue	5,447	37,085
Deferred tuition revenue	62,255	71,163
Total current liabilities	1,571,974	848,142
Long-term liabilities, net of current portion		
Note payable - related party	1,517,833	1,517,833
<b>TOTAL LIABILITIES</b>	3,089,807	2,365,975
<b>NET ASSETS (ACCUMULATED DEFICIT):</b>		
Unrestricted	(2,159,946)	(1,082,304)
Temporarily restricted	112,504	137,828
Permanently restricted	298,306	152,604
Total net assets (accumulated deficit)	(1,749,136)	(791,872)
<b>TOTAL LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)</b>	\$ 1,340,671	\$ 1,574,103

See notes to financial statements.

# BALLET SAN JOSE SILICON VALLEY

## STATEMENT OF ACTIVITIES SUMMARY

	For the Year Ended June 30, 2010			2009
	Ballet	School	Totals	Totals
<b>REVENUE AND SUPPORT:</b>				
Ballet production	\$ 2,160,707	\$ 41,574	\$ 2,202,281	\$ 1,884,156
School tuition	0	476,358	476,358	458,251
Less: Scholarship expense	0	(47,950)	(47,950)	(47,975)
School merchandise sales	0	10,931	10,931	9,298
Contributions	4,281,284	66,685	4,347,969	4,027,386
Contributions in-kind	3,160	1,297	4,457	113,164
Boutique sales	28,470	0	28,470	28,187
Special events	225,545	36,224	261,769	90,329
Less: Special event costs	(32,766)	(12,596)	(45,362)	(24,763)
Investment income (loss)	10,174	90	10,264	(5,773)
Miscellaneous	1,250	0	1,250	(8,021)
	<b>6,677,824</b>	<b>572,613</b>	<b>7,250,437</b>	<b>6,524,239</b>
<b>EXPENSES:</b>				
Program:				
Ballet production	5,619,046	0	5,619,046	4,478,141
Ballet school	0	549,372	549,372	535,409
Marketing and public relations	1,133,550	0	1,133,550	1,142,015
	<b>6,752,597</b>	<b>549,372</b>	<b>7,301,969</b>	<b>6,155,565</b>
Support Services				
General and administrative	737,284	0	737,284	587,872
Development	168,448	0	168,448	195,731
Ballet San Jose Silicon Valley Council	0	0	0	23,458
	<b>905,732</b>	<b>-</b>	<b>905,732</b>	<b>807,061</b>
	<b>7,658,329</b>	<b>549,372</b>	<b>8,207,701</b>	<b>6,962,626</b>
<b>CHANGE IN NET ASSETS</b>	<b>(980,505)</b>	<b>23,241</b>	<b>(957,264)</b>	<b>(438,387)</b>
<b>NET ASSETS (ACCUMULATED DEFICIT),</b>				
beginning of year	<b>(19,796)</b>	<b>(772,076)</b>	<b>(791,872)</b>	<b>(353,485)</b>
<b>NET ASSETS (ACCUMULATED DEFICIT),</b>				
end of year	<b>\$ (1,000,301)</b>	<b>\$ (748,835)</b>	<b>\$ (1,749,136)</b>	<b>\$ (791,872)</b>

See notes to financial statements.

**BALLET SAN JOSE SILICON VALLEY**

**STATEMENT OF ACTIVITIES - DETAIL**

	Ballet				School			TOTAL		
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total	2010	2009
		Restricted	Restricted			Restricted	Restricted			
<b>REVENUE AND SUPPORT:</b>										
Ballet Production	2,160,707	0	0	2,160,707	41,574	0	0	41,574	2,202,281	1,884,156
School Tuition	0	0	0	0	476,358	0	0	476,358	476,358	458,251
Less: Scholarship Expense	0	0	0	0	(47,950)	0	0	(47,950)	(47,950)	(47,975)
School merchandise sales	0	0	0	0	10,931	0	0	10,931	10,931	9,298
Contributions	4,079,079	56,503	145,702	4,281,284	66,685	0	0	66,685	4,347,969	4,027,386
Contributions in-kind	3,160	0	0	3,160	1,297	0	0	1,297	4,457	113,164
Boutique sales	28,470	0	0	28,470	0	0	0	0	28,470	28,187
Special events	225,545	0	0	225,545	36,224	0	0	36,224	261,769	90,329
Less: Special events costs	(32,766)	0	0	(32,766)	(12,596)	0	0	(12,596)	(45,362)	(24,763)
Investment income (loss)	9,415	759	0	10,174	63	27	0	90	10,264	(5,773)
Miscellaneous	1,250	0	0	1,250	0	0	0	0	1,250	0
Net ssssets released from restrictions	82,613	(82,613)	0	0	0	0	0	0	0	(8,021)
<b>TOTAL REVENUE AND SUPPORT</b>	<b>6,557,473</b>	<b>(25,351)</b>	<b>145,702</b>	<b>6,677,824</b>	<b>572,586</b>	<b>27</b>	<b>0</b>	<b>572,613</b>	<b>7,250,437</b>	<b>6,524,239</b>
<b>EXPENSES:</b>										
Ballet production	5,619,046	0	0	5,619,046	0	0	0	0	5,619,046	4,478,141
Ballet school	0	0	0	0	549,372	0	0	549,372	549,372	535,409
Marketing and public relations	1,133,550	0	0	1,133,550	0	0	0	0	1,133,550	1,142,015
General and administrative	737,284	0	0	737,284	0	0	0	0	737,284	587,872
Development	168,448	0	0	168,448	0	0	0	0	168,448	195,731
Ballet San Jose Siliicon Valley Council	0	0	0	0	0	0	0	0	0	23,458
<b>TOTAL EXPENSES</b>	<b>7,658,329</b>	<b>0</b>	<b>0</b>	<b>7,658,329</b>	<b>549,372</b>	<b>0</b>	<b>0</b>	<b>549,372</b>	<b>8,207,701</b>	<b>6,962,626</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,100,856)</b>	<b>(25,351)</b>	<b>145,702</b>	<b>(980,505)</b>	<b>23,214</b>	<b>27</b>	<b>0</b>	<b>23,241</b>	<b>(957,264)</b>	<b>(438,387)</b>
<b>NET ASSETS (ACCUMULATED DEFICIT), beginning of year</b>	<b>(229,112)</b>	<b>126,712</b>	<b>82,604</b>	<b>(19,796)</b>	<b>(853,192)</b>	<b>11,116</b>	<b>70,000</b>	<b>(772,076)</b>	<b>(791,872)</b>	<b>(353,485)</b>
<b>NET ASSETS (ACCUMULATED DEFICIT), end of year</b>	<b>(1,329,968)</b>	<b>101,361</b>	<b>228,306</b>	<b>(1,000,301)</b>	<b>(829,978)</b>	<b>11,143</b>	<b>70,000</b>	<b>(748,835)</b>	<b>(1,749,136)</b>	<b>(791,872)</b>

See notes to financial statements.

**BALLET SAN JOSE SILICON VALLEY**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEARS ENDED JUNE 30, 2010 WITH COMPARATIVE 2009 TOTALS**

	Program Services						Support Services				2009 Comparative Totals	
	Ballet Production	Ballet School	Artistic	Costume Shop	Box Office	Marketing	Total Program Services	Management and General	Development	Total Support Services		Totals
Salaries	\$ 835,591	\$ 352,503	\$ 1,697,164	\$ 266,571	\$ 100,168	\$ 142,559	\$ 3,394,555	\$ 381,146	\$ 84,379	\$ 465,525	\$ 3,860,080	\$ 3,230,808
Employee benefits	37,495	22,748	270,077	36,539	11,268	22,859	400,986	32,114	5,968	38,082	439,069	360,989
Payroll taxes	95,055	31,365	147,800	26,564	8,917	10,586	320,287	28,997	6,444	35,440	355,728	309,905
Workers compensation	75,281	6,548	143,653	16,101	6,050	1,226	248,858	20,524	726	21,250	270,108	178,479
Pension plan	93,011	2,596	0	0	0	0	95,607	0	0	0	95,607	83,476
<b>Total salaries and benefits</b>	<b>1,136,435</b>	<b>415,758</b>	<b>2,258,693</b>	<b>345,775</b>	<b>126,403</b>	<b>177,229</b>	<b>4,460,294</b>	<b>462,781</b>	<b>97,516</b>	<b>560,297</b>	<b>5,020,591</b>	<b>4,163,657</b>
Production expense	979,986	9,216	255	83,938	0	0	1,073,395	0	0	0	1,073,395	848,693
Advertising and promotion	0	10,605	0	0	0	515,068	525,673	0	0	0	525,673	571,369
Professional services	3,739	20,481	13,680	3,849	4,439	219,179	265,367	139,449	2,582	142,031	407,398	168,426
Occupancy	168,269	46,058	71,733	35,013	12,729	23,478	357,280	25,383	14,256	39,639	396,919	382,855
Printing and publications	0	4,327	0	0	0	125,881	130,208	2,923	2,936	5,859	136,067	100,509
Bank & credit card fees, late fees	0	11,969	0	0	55,162	0	67,131	18,416	0	18,416	85,547	58,342
Travel	65,518	15	0	0	0	0	65,533	8,849	0	8,849	74,382	87,206
Postage and shipping	1,576	3,076	1,719	1,003	1,862	53,874	63,110	6,181	1,146	7,327	70,437	54,268
Insurance	17,386	3,978	19,720	3,616	2,170	2,170	49,040	3,255	1,085	4,340	53,380	48,896
Patron appreciation	0	1,297	0	0	0	5,015	6,312	0	41,646	41,646	47,958	36,687
Supplies	3,831	5,225	4,180	2,438	4,528	4,528	24,730	10,757	2,787	13,544	38,274	16,480
Interest	0	0	0	0	0	0	0	35,948	0	35,948	35,948	46,165
Box office	0	0	0	0	34,046	0	34,046	0	0	0	34,046	188,334
Equipment maintenance and rental	2,101	2,866	2,292	1,337	2,483	2,483	13,562	4,012	1,528	5,540	19,102	17,142
Telephone	2,036	2,777	2,221	1,296	2,406	2,406	13,142	3,887	1,481	5,368	18,510	21,289
Dues and subscriptions	13,439	0	0	0	0	0	13,439	0	0	0	13,439	1,073
Education and outreach	0	2,464	0	0	0	0	2,464	0	0	0	2,464	4,606
Miscellaneous	0	3,115	0	0	0	0	3,115	0	793	793	3,908	9,937
<b>Totals before depreciation</b>	<b>2,394,316</b>	<b>543,227</b>	<b>2,374,493</b>	<b>478,265</b>	<b>246,228</b>	<b>1,131,311</b>	<b>7,167,841</b>	<b>721,841</b>	<b>167,756</b>	<b>889,597</b>	<b>8,057,438</b>	<b>6,825,934</b>
Depreciation	113,759	6,145	8,681	2,379	925	2,239	134,128	15,443	692	16,135	150,263	136,692
<b>Total functional expenses</b>	<b>\$ 2,508,075</b>	<b>\$ 549,372</b>	<b>\$ 2,383,174</b>	<b>\$ 480,644</b>	<b>\$ 247,153</b>	<b>\$ 1,133,550</b>	<b>\$ 7,301,969</b>	<b>\$ 737,284</b>	<b>\$ 168,448</b>	<b>\$ 905,732</b>	<b>\$ 8,207,701</b>	<b>\$ 6,962,626</b>
Percentage of total	30.6%	6.7%	29.0%	5.9%	3.0%	13.8%	89.0%	9.0%	2.1%	11.0%	100.0%	

See notes to financial statements.

# BALLET SAN JOSE SILICON VALLEY

## STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (957,264)	\$ (438,387)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Permanently restricted contributions to endowment	(145,702)	0
Depreciation	150,263	136,692
Donated equipment	0	(1,350)
Net realized and unrealized losses on investments	(10,110)	19,465
(Increase) decrease in assets:		
Accounts receivable	(37,666)	8,341
Grants and pledges receivables	78,470	(110,000)
Inventory	(20,519)	(10,734)
Prepaid expenses and deposits	72,824	57,989
Increase (decrease) in liabilities:		
Accounts payable	676,368	496,664
Accrued expenses	88,010	36,964
Deferred production revenue	(31,638)	(322,762)
Deferred tuition revenue	(8,908)	4,612
 <b>NET CASH USED BY OPERATING ACTIVITIES</b>	 <u>(145,872)</u>	 <u>(122,506)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of furniture and equipment	(24,700)	(72,484)
Increase in endowment funds	106,664	(338)
Purchases of investments	(145,702)	(7,642)
 <b>NET CASH USED BY INVESTING ACTIVITIES</b>	 <u>(63,738)</u>	 <u>(80,464)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on line of credit and loan	0	(4,322)
Permanently restricted contributions to endowment	145,702	0
 <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	 <u>145,702</u>	 <u>(4,322)</u>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 <u>(63,908)</u>	 <u>(207,292)</u>
 <b>CASH AND CASH EQUIVALENTS, beginning of year</b>	 <u>85,076</u>	 <u>292,368</u>
 <b>CASH AND CASH EQUIVALENTS, end of year</b>	 <u>\$ 21,168</u>	 <u>\$ 85,076</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid for interest	<u>\$ 0</u>	<u>\$ 46,165</u>

See notes to financial statements.



# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### Note 1. ORGANIZATION:

Ballet San Jose Silicon Valley (the “Ballet” or the “Organization”) is a California nonprofit public benefit corporation, incorporated on February 9, 1983, as an arts and entertainment service organization for the promotion of the art of dance. The mission of Ballet San Jose is to provide our audiences with professional ballet performances that are produced to the highest artistic standard, which contribute to the cultural needs of the community, and that are accessible to the broadest possible audience. The Ballet is firmly committed to providing arts education for children and adults through a ballet school and free outreach programs, focusing on both professional training and on general community enrichment.

Ballet San Jose Silicon Valley has more than two decades of performances in San Jose, under the continuous artistic direction of Dennis Nahat. A Julliard-trained and internationally recognized dancer/choreographer, Dennis Nahat has been the recipient of an Isadora Duncan award, an American Dance Guild Award for outstanding achievements in dance, and, in 2008, the President’s Award from the American Dance Masters. Resident in an historic downtown San Jose Knights of Columbus building, Ballet San Jose Silicon Valley ranks among the top professional ballet companies in the country by budget size and is recognized nationally and internationally for its lively, eclectic, and entertaining programming as well as for the technical strength and caliber of its dance artists. The company performs both classical and innovative contemporary works that attract a diverse audience of patrons during its annual performance season. The award-winning Ballet San Jose School provides a rigorous curriculum of ballet classes to an enrollment of professional as well as community students. In addition, the Ballet has a core commitment to provide access to the arts for children, and for the general community, through free educational outreach programs and performances.

### Note 2. PROGRAM SERVICES:

Ballet production:

Prior to the start of the 2009-2010 fiscal year, new executive director Stephanie Ziesel assumed the administrative management of the company, with Dennis Nahat continuing as Artistic Director. An expanded twenty-fourth season of programs and performances was already planned prior to her appointment, in fulfilling the mission "to present professional ballets of the highest artistic standard." The first half of the performance season contained three full-length works: Nahat's *Coppelia*, Daryl Gray's *Pirates of Penzance*, and the 30th anniversary production of Nahat's *The Nutcracker*. Every program received glowing reviews from critics and patrons. The February performances of Nahat’s full-length *Romeo & Juliet* were also critically praised and well attended. In the Spring, the company presented two mixed repertory shows.

Community engagement with our audience base included patron/donor pre-performance receptions before all four *Coppelia* performances in the temporary tented 'Pavilion' installed by Team San Jose adjacent to the CPA. Subscriber dinners were offered in the Pavilion prior to all three of the *Pirates of Penzance* evening shows, and included Dennis Nahat speaking with choreographer Daryl Gray to the assembled dinner guests. Likewise, the spring repertory programs were also preceded by subscriber dinners that were held in the Ridder Lounge inside the Center for Performing Arts, with guest choreographer Donald Mahler and Balanchine Trust Repetiteur Sandra Jennings speaking to the assembled dinner guests. Patrons were also welcomed to the third annual *Nutcracker* Opening Night Celebration in a ballroom at the Convention Center, elegantly trimmed with holiday décor. Sponsored for a third year by Gentry magazine, more than

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### Note 2. PROGRAM SERVICES (Continued):

125 paying attendees enjoyed live entertainment, supper 'by the bite' from a number of Silicon Valley restaurants, hosted wine from two vintners, a silent auction, and raffle donation fundraiser, before heading to the theater for the opening performance of the ballet. The same ballroom was also used for seven 'Nutcracker High Teas' following every matinee performance, and realized more than 400 attendees in total. Board Chair John Fry sponsored a spring gala at the Marriott hotel on the opening night of *Romeo & Juliet* in February.

Ballet San Jose was pleased to have been among the winners of Isadora Duncan Awards announced in January 2010. Principal dancer Ramon Moreno received the individual award for Outstanding Achievement in Performance for the entire 2008-2009 season; and Ballet San Jose Regisseur Raymond Rodriguez with Flemming Flindt and Vivi Flindt won the award for Outstanding Achievement in Restaging, Revival, or Reconstruction for *The Toreador* (October '08). The entire company was also nominated for Outstanding Achievement in a performance for *Dark Elegies* (May '09).

#### Ballet school:

In service of the mission to, "provide arts education for children and adults through a ballet school and free outreach programs", Ballet San Jose School continues to train classical dancers under school director, Lise la Cour, with enrollment remaining at approximately 400 students. One hundred of these are in the Professional Division, following a rigorous and progressive class curriculum taught by experienced former professional dancers and current BSJ company dancers. These students are given opportunities to perform in company performances and present an annual, fully-staged children's fairy tale ballet in the historic California Theater, choreographed by Lise la Cour. The balance of the student body are children enrolled in the Open Division of the school, with additional classes specifically designed for adult / teen students. 2010 was the second year the ballet school conducted a one-week Youth Performance Camp in June. This program was devised in 2009 as a means to introduce new students to ballet and performing art in a fun atmosphere, including jazz dance, musical theater, character dance, and costume production, and culminating in a performance on the final day of camp. The Ballet San Jose School 'Summer Intensive' occurs in July, with auditioned students attending a four-week program designed for serious ballet students, and attained more than 70% of the enrollment capacity. The Ballet School also benefited from several fundraising events with proceeds targeted to school operating expenses and tuition scholarships.

Education and Outreach programming remains a core offering as indicated in the mission statement, to make art "accessible to as broad an audience as possible" and to provide "community enrichment." The program component reaching the most participants are Student Matinees, offered by Ballet San Jose as no-cost performances for public school students in San Jose and outlying communities, targeting the schools with the most at-risk and/or underserved student populations. In six performances in December 2009, almost 11,000 students and 1,200 teachers/chaperones were treated to the holiday ballet. The Ballet Studio Tour field trips welcomed 17 classrooms with over 300 students into our production and costume shops, and in the rehearsal studios for a behind-the-scenes experience. We recruit as many as 50 of the field trip participants to return with parental/guardian permission, for a weekly First Step ballet class ongoing throughout

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### **Note 2. PROGRAM SERVICES (Continued):**

each school semester. Outreach boy students attend Free Boy's Classes, which have also resulted in new incoming boys enrolling as tuition-paying students in the ballet school. The mission statement of the Ballet reads, in part, "the Company is firmly committed to providing arts education ... through a ballet school and free outreach programs." Opened in 1995, in the heart of downtown San Jose, the Ballet San Jose School has trained hundreds of students, in both professional and open divisions, as well as adult community students. The Ballet School offers progressive ballet curriculum, with an emphasis on the Bournonville technique among other classic methods, and a four-week summer intensive dance program. Since 2002, the School has been under the direction of Lise la Cour, former dancer and director with the Royal Danish Ballet and School, Mrs. la Cour was recognized in December, 2007 with the Margot Lander Award, a rarely-bestowed Danish honor. The School also received international attention for the caliber of its instruction when students competing in 'DanceItalia' in 2005 received two first place awards. An important component of the company's Education and Outreach Program, the Ballet San Jose School hosts local classrooms for a 'behind the scenes' look at a ballet company, featuring a tour of its production and rehearsal studios, and an introductory ballet class with a ballet teacher and live piano accompanist.

### **Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Basis of presentation:

Financial statement presentation follows professional accounting standards which require the Ballet 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.

Unrestricted net assets include those assets with over which the Board of Trustees has discretionary control in carrying out the operations of the Ballet. Under this category, the Ballet maintains an operating fund plus any net assets designated by the Board for specific purposes. The Ballet has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period.

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.

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 revenue, support and expenses during the reporting period. Actual results could differ from those estimates.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### **Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Concentrations:

For the years ended June 30, 2010 and 2009, approximately 49% and 45% of the Ballet's revenue and support was provided from contributions from one of its board members, respectively.

#### Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less and exclude donor restricted endowment cash. 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. Investment income and gains restricted by a donor are reported as increases in restricted net assets.

#### Fair value:

The Ballet follows professional accounting standards which define fair value 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".

Professional accounting standards establishes a hierarchy 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 Ballet. Unobservable inputs reflect the Ballet'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 instruments. 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 Ballet's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### **Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Accounts receivable:

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

#### Grants and pledges receivable:

Grants and pledges receivable, representing unconditional promises to give, are recorded when made at the estimated present value of the grant or pledge. The current portion of grants and pledges receivable represents amounts due within one year.

#### Inventory:

Inventory consists of merchandise sold by the Council's volunteers at Ballet's performances as well as clothing and supplies sold to the Ballet School's students. All inventory is stated at the lower of cost or market on a first-in/first-out basis.

#### Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Acquisitions of furniture and equipment in excess of \$1,000 are capitalized. Donated equipment is recorded at fair value when received. Depreciation is computed on a straight-line method over the estimated useful lives of the related assets which are estimated to be five to fifteen years. Leasehold improvements are stated at cost less accumulated amortization over the lesser of the estimated useful lives, generally five years, or the lease term.

#### Revenue recognition:

Production revenue is reported in the period in which the performance occurs. Deferred production revenue primarily represents the amount of pre-sold subscriptions and tickets related to performances for the subsequent year and will be recognized when the related performances occur. Tuition revenue is recognized ratably over the period for the dance instruction.

#### Contributions:

Contributions are reported in accordance with professional accounting standards. 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Ballet reports the supports and unrestricted.

#### Contributions in-kind:

Contributions in-kind are also recognized in accordance with the provisions of SFAS No. 116. 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 Ballet would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Ballet also receives donated services that do not require specific expertise but which are nonetheless central to the Ballet's operations.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### **Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Allocation of indirect functional expenses:

Indirect expense allocations are based on analysis of personnel time and space utilized.

Advertising:

The Ballet defers advertising costs with future benefits, which consist primarily of direct response advertising related to future productions. Advertising and promotion expense for the years ended June 30, 2010 and 2009 was \$525,673 and \$571,369, respectively.

Income taxes:

Ballet San Jose Silicon Valley is exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code and Section 23701 (d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. The Ballet recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of June 30, 2010, management has determined that the Ballet has had no uncertain tax positions. The Ballet recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Income tax returns for the year prior to 2006 are no longer subject to examination by tax authorities. The Ballet is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status.

Reclassifications:

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events:

Management of the Ballet has evaluated events and transactions subsequent to June 30, 2010 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through October 10, 2011, the date the financial statements became available to be issued.

### **Note 4. INVESTMENTS:**

The Ballet's investment policy is to maintain a moderately conservative but balanced portfolio, with the primary investment objectives being the preservation of purchasing power and the preservation of capital. The Ballet's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for the Ballet to fulfill its Mission Statement. Donated investments are sold immediately and recorded at their value on the sale date.

Investments held in trust:

In 1992, the Ballet participated in a joint fundraising effort referred to as the Silicon Valley Arts Fund along with other local arts organizations. Two separate deposit accounts are required to be held in trust by Community Foundation Silicon Valley for the benefit of the Ballet. These funds were transferred to the Ballet in September 2010.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### Note 4. INVESTMENTS (Continued):

One account represents a reserve of funds available to the Ballet for operating purposes, which can be borrowed by the Ballet interest free and must be repaid annually. Investments held in trust, net of borrowings, consisted of the following as of June 30:

	2010	2009
Investments held in trust	\$ 209,654	\$ 210,453
Fund borrowings	<u>(118,932)</u>	<u>(121,597)</u>
Investment held in trust net of borrowings	<u>\$ 90,722</u>	<u>\$ 88,856</u>

The second account is a permanent endowment fund as described in Note 9. Investment held in trust for endowment as of June 30, consisted of the following:

	2010	2009
Investments held in trust for endowment	<u>\$ 179,065</u>	<u>\$ 32,604</u>

Investments - long-term consisted of the following as of June 30:

	2010	2009
Mutual funds – endowment	\$ 31,794	\$ 50,000
Mutual funds – other	<u>14</u>	<u>14</u>
Total investments, long-term	<u>\$ 31,808</u>	<u>\$ 50,014</u>

Earnings on the investments are included under “investment earnings” in the statement of activities.

All investments held by the Organization as of June 30, 2010 are valued at Level 1 in the fair value hierarchy.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

**Note 5. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following at June 30:

	2010	2009
Furniture and equipment	\$ 2,010,189	\$ 1,988,539
Leasehold improvements	374,200	371,150
	2,384,389	2,359,689
Less accumulated depreciation	(1,611,967)	(1,461,704)
Property and equipment, net	\$ 772,422	\$ 897,985

At June 30, 2010 and 2009, furniture and equipment includes equipment donated at fair value totaling approximately \$150,000 with related accumulated depreciation of approximately \$143,500 and \$141,000 at June 30, 2010 and 2009, respectively. Depreciation expense for the years ended in June 30, 2010 and 2009 was \$150,263 and \$136,692, respectively.

**Note 6. NOTES PAYABLE:**

Notes payable as of June 30, consisted of the following:

	2010	2009
Fry's Electronics:		
Secured by substantially all assets of the Ballet, principal plus interest due on the first day of each month, interest at Comerica Bank, base rate less 1% annum (2.25% at June 30, 2010 and June 30, 2009), maturity date March 3, 2011. Two members of the Ballet's Board of Trustees are also related parties of Electronics. A member of the Ballet's Board of		
is also a member of management at Comerica Bank.	\$ 1,517,833	\$ 1,517,833

Interest expense was \$35,948 and \$46,165 for the years ended June 30, 2010 and 2009, respectively.



# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

**Note 7. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets as of June 30, were available for the following purposes:

	2010	2009
Time restrictions:		
Pledges receivable	\$ 30,000	\$ 60,000
Endowment accumulated earnings - unappropriated	11,902	11,116
Purpose restrictions:		
Council activities	3,732	3,732
Betts Cartwright school scholarship fund	1,716	0
Dancer transition fund	65,153	62,980
Total temporarily restricted net assets	\$ 112,503	\$ 137,828

**Note 8. PERMANENTLY RESTRICTED NET ASSETS:**

As of June 30, 2010 and 2009 the Ballet School has received \$70,000 towards a permanent endowment fund for scholarships. The fund requires that the cash be held by the School indefinitely, with interest earned available for scholarships.

The Community Foundation Silicon Valley holds a permanent endowment fund established by the Silicon Valley Arts Fund. The earnings remain in the fund until distributed at the discretion of the Community Foundation. In November 2009, an additional contribution in the amount of \$145,702 was made to this fund. As of June 30, 2010 and 2009 the fair market value of the investments was \$179,065 and \$32,604, respectively.

The Ballet San Jose Silicon Valley Council has established the Betts Cartwright Memorial Scholarship endowment fund. In accordance with the endowment guidelines, the principal of \$50,000 shall never be accessed for scholarship distribution. Investment earnings on the \$50,000 principal are restricted for Ballet scholarship awards. As of June 30, 2010 and 2009, the Betts Cartwright Memorial Scholarship endowment fund balance was \$50,000, respectively.

**Note 9. RETIREMENT PLAN:**

The Organization has a defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code. Employees of Ballet San Jose Silicon Valley are eligible upon hire and provides voluntary salary deferrals up to certain amounts as defined by the Plan. The Organization has not contributed to the plan for both years ended June 30, 2010 and June 30, 2009.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

**Note 10. FUNDRAISING:**

Certain fundraising activities are performed for the Ballet by the Ballet San Jose Silicon Valley Council (the "Council"). In addition, the Ballet hosts special events and fundraisers as part of its development activities. The summarized activities for the years ended June 30, consisted of the following:

	2010	2009
Contributions and merchandise sales	\$ 57,289	\$ 28,187
Cost of related activities	<u>(28,818)</u>	<u>(23,458)</u>
Net Support Revenue	<u>\$ 28,470</u>	<u>\$ 4,729</u>
Special events	\$ 261,769	\$ 90,329
Cost of related activities	<u>(45,362)</u>	<u>(24,763)</u>
Net Special Events	<u>\$ 216,407</u>	<u>\$ 65,566</u>

**Note 11. CONTRIBUTIONS IN-KIND:**

The estimated fair value of donated equipment, supplies and expert services received are recorded as contributions. During the years ended June 30, 2010 and 2009 the following in-kind contributions were received by the Ballet:

	2010	2009
General operations:		
Professional services	\$ 0	\$ 82,184
Advertising	0	26,560
Food and beverage	3,476	0
Supplies and minor equipment	981	3,070
Equipment	<u>0</u>	<u>1,350</u>
Total Contributions In-Kind General Operations	<u>\$ 4,457</u>	<u>\$ 113,164</u>

Other services:

The Ballet also receives donated services that do not require specific expertise but which are nonetheless central to the Ballet's operations. The estimated value of these services, based on the estimated dollar value of volunteer time calculated by Independent Sector, for the years ended June 30, 2010 and 2009 amounted to \$77,500 and \$81,000 respectively. In accordance with SFAS No. 116, the value of these services is not reflected in the financial statements.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### **Note 12. RELATED PARTY TRANSACTIONS:**

The Ballet's volunteer board members are active in both managing the fundraising events and activities and in making private contributions. For the years ended June 30, 2010 and 2009, contributions received from the board members and companies they control were \$3,822,100 and \$3,303,462, respectively.

Also, the Ballet holds a Note Receivable from its Artistic Director in the amount of \$100,000. The Note was made on August 1, 2002, with funds restricted for this purpose. Interest accrues at a rate of 5% per annum but is not due until the Note is due on August 1, 2032, or upon sale of the real property, whichever is sooner. Should the Note become due upon sale of the property, the Ballet agrees to accept 13.33% of the sale price of the property in lieu of principal and accrued interest on the Note. Due to the uncertainty of whether the Ballet would realize interest income or a percentage of the sale price upon sale of the property, no income has been recorded in the financial statements. Interest accrued from August 1, 2002 to June 30, 2010 amounts to \$47,159.

### **Note 13. ENDOWMENT:**

The Ballet, with authorization for its Board of Trustees, has entered into an agreement with Silicon Valley Community Foundation (Foundation) to manage, hold in trust, and invest certain assets according to the Foundation's investment policy guidelines. The Ballet's Endowment consists of funds established for earnings thereon to support operations. As required by professional accounting standards, 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 Trustees of the Ballet has interpreted the California version of the Uniform Prudent Management of Institutional Fund Acts (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Ballet 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 of 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 Ballet in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of UPMIFA, the Ballet considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### Note 13. ENDOWMENT (Continued):

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

#### Funds with deficiencies:

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with professional accounting standards, deficiencies of this nature that are reported in unrestricted net assets totaled \$18,206 and \$23,860 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the years ended June 30, 2010 and 2009.

#### Investment return objectives, risk parameters and strategies:

The Ballet, with authorization from its Board of Trustees, has entered into an agreement with Silicon Valley Community Foundation to manage, hold in trust, and invest its endowment assets that are a part of the Silicon Valley Arts Fund according to Silicon Valley Community Foundation's investment policy guidelines. The endowment assets are held in Silicon Valley Community Foundations Long-Term Growth Pool ("the Pool"). The performance objective of the Pool is to earn a return of at least the Consumer Price Index plus 5%. Given that this benchmark is not directly related to market performance, success or failure in achieving this objective should be evaluated over ten to twenty years.

The Silicon Valley Community Foundation Long-Term Growth Pool is constructed in such a way as to achieve its return objective while minimizing volatility to the degree possible. Silicon Valley Community Foundation believes that this is best accomplished through the use of a well-diversified asset allocation strategy. The Silicon Valley Community Foundation Long-Term Growth Pool has a broad target allocation of 25% fixed income, 45% equity and 30% alternative investments.

The Ballet's return objectives for endowment funds not a part of the Silicon Valley Community Foundation are to achieve a total return (income and appreciation) in excess of inflation over a full market cycle. Assets can be allocated amongst commercial bank accounts, money market funds, equities, and fixed income securities.

#### Spending policy:

Each year, the Ballet is authorized to withdraw up to 5% of the total market value of investments. A higher amount can be withdrawn if consistent with restricted investment guidelines. The dollar amount and timing of any distribution(s) from the investment account are at the discretion of the Executive Director.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

**Note 13. ENDOWMENT (Continued):**

Endowment net asset composition by type of fund as of June 30, 2010 consisted of the following:

### Betts Cartwright Endowment Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2009	\$ (23,860)	\$ 0	\$ 50,000	\$ 26,140
Investment income	<u>5,654</u>	<u>0</u>	<u>0</u>	<u>5,654</u>
Endowment Net Assets, June 30, 2010	<u>\$ (18,206)</u>	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 31,794</u>

### Ballet School Endowment

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2009	\$ 0	\$ 11,116	\$ 70,000	\$ 81,116
Investment income	<u>0</u>	<u>27</u>	<u>0</u>	<u>27</u>
Endowment Net Assets, June 30, 2010	<u>\$ 0</u>	<u>\$ 11,143</u>	<u>\$ 70,000</u>	<u>\$ 81,143</u>

### SVCF Endowment

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2009	\$ 0	\$ 0	\$ 32,604	\$ 32,604
Activities:				
Contributions	0	0	145,702	145,702
Investment return	0	4,022	0	4,022
Fees	0	(598)	0	(598)
Appropriated expenditures	<u>0</u>	<u>(2,665)</u>	<u>0</u>	<u>(2,665)</u>
Endowment Net Assets, June 30, 2010	<u>\$ 0</u>	<u>\$ 759</u>	<u>\$ 178,306</u>	<u>\$ 179,065</u>

**Note 14. COMMITMENTS:**

The Ballet currently leases a building in San Jose, California on a month-to-month basis. The Ballet is responsible for all property taxes, insurance, and repairs and maintenance. One of the partners of the lessor organization is a Trustee of the Ballet. Total rent expense was \$103,000 for each year ended June 30, 2010 and 2009.

The Ballet also leases storage space in Dixon, California to store its theatrical props and materials. The term of the lease is fifteen years and four months, commencing March 1, 2001 and ending June 30, 2016. Total rent expense on these leases for the years ended June 30, 2010 and 2009 was approximately \$156,000 and \$152,000, respectively.

# BALLET SAN JOSE SILICON VALLEY

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

### Note 14. COMMITMENTS:

Future minimum lease payments for the storage space at Dixon are as follows:

Year Ending, <u>June 30,</u>	
2011	\$ 162,174
2012	167,409
2013	172,812
2014	178,386
2015	178,386
Thereafter	<u>385,035</u>
	<u>\$ 1,244,202</u>