

BALLET SAN JOSE SILICON VALLEY
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2011 WITH COMPARATIVE
TOTALS FOR JUNE 30, 2010

BALLET SAN JOSE SILICON VALLEY

TABLE OF CONTENTS **JUNE 30, 2011**

Independent auditors' report	2
Statement of financial position	3
Statement of activities summary	4
Statement of activities detail	5
Statement of functional expenses	6
Statement of cash flows	7
Notes to financial statements	8 - 18



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, 2011, 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 prior year summarized comparative information has been derived from Ballet San Jose Silicon Valley's 2010 financial statements, and in our report dated October 10, 2011, we expressed an unqualified opinion on those financial statements.

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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Certified Public Accountants

San Francisco, California
March 3, 2012

BALLET SAN JOSE SILICON VALLEY

STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 457,522	\$ 21,168
Accounts receivable, net	10,803	47,931
Grants and pledges receivable	20,725	31,530
Inventory	48,973	62,048
Prepaid expenses and deposit	10,115	3,834
Total current assets	548,137	166,511
PROPERTY AND EQUIPMENT, NET	673,424	772,422
OTHER ASSETS:		
Note receivable	100,000	100,000
Security deposits	26,985	-
Investments held in trust	-	90,722
Investments held in trust for endowment	-	179,065
Investments	41,894	31,808
Endowment investments - accumulated earnings	-	143
Total other assets	168,879	401,738
TOTAL ASSETS	\$ 1,390,440	\$ 1,340,671
<u>LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 271,253	\$ 1,295,337
Accrued expenses	141,812	208,935
Deferred production revenue	-	5,447
Deferred tuition revenue	125,037	62,255
Total current liabilities	538,102	1,571,974
Long-term liabilities, net of current portion		
Note payable	1,517,833	1,517,833
TOTAL LIABILITIES	2,055,935	3,089,807
NET ASSETS (ACCUMULATED DEFICIT):		
Unrestricted	(1,081,640)	(2,159,946)
Temporarily restricted	117,839	112,504
Permanently restricted	298,306	298,306
TOTAL NET ASSETS (ACCUMULATED DEFICIT)	(665,495)	(1,749,136)
TOTAL LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)	\$ 1,390,440	\$ 1,340,671

See notes to financial statements.

BALLET SAN JOSE SILICON VALLEY

STATEMENT OF ACTIVITIES SUMMARY

	For the Year Ended June 30, 2011			2010
	Ballet	School	Totals	Totals
REVENUE AND SUPPORT:				
Ballet production	\$ 1,991,570	\$ 32,374	\$ 2,023,944	\$ 2,202,281
School tuition	-	477,680	477,680	476,358
Less: Scholarship expense	-	(40,615)	(40,615)	(47,950)
School merchandise sales	-	8,039	8,039	10,931
Contributions	4,815,588	73,480	4,889,068	4,347,969
Contributions in-kind	17,157	-	17,157	4,457
Boutique sales	27,412	-	27,412	28,470
Special events	-	56,948	56,948	261,769
Less: Special event costs	-	(22,235)	(22,235)	(45,362)
Investment income	6,663	10,235	16,898	10,264
Miscellaneous	-	-	-	1,250
TOTAL REVENUE AND SUPPORT	6,858,390	595,906	7,454,296	7,250,437
EXPENSES:				
Ballet production	4,847,955	-	4,847,955	5,619,046
Ballet school	-	574,494	574,494	549,372
Marketing and public relations	302,490	-	302,490	1,133,550
General and administrative	476,102	-	476,102	737,284
Development	169,613	-	169,613	168,448
TOTAL EXPENSES	5,796,161	574,494	6,370,655	8,207,701
CHANGE IN NET ASSETS	1,062,228	21,413	1,083,641	(957,264)
NET ASSETS (ACCUMULATED DEFICIT), beginning of year	(1,000,301)	(748,835)	(1,749,136)	(791,872)
NET ASSETS (ACCUMULATED DEFICIT), end of year	\$ 61,927	\$ (727,422)	\$ (665,495)	\$ (1,749,136)

See notes to financial statements.

BALLET SAN JOSE SILICON VALLEY

STATEMENT OF ACTIVITIES - DETAIL

YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE 2010 TOTALS

	Ballet				School				Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011	2010
REVENUE AND SUPPORT:										
Ballet production	\$ 1,991,570	\$ -	\$ -	\$ 1,991,570	\$ 32,374	\$ -	\$ -	\$ 32,374	\$ 2,023,944	\$ 2,202,281
School tuition	-	-	-	-	477,680	-	-	477,680	477,680	476,358
Less: Scholarship expense	-	-	-	-	(40,615)	-	-	(40,615)	(40,615)	(47,950)
School merchandise sales	-	-	-	-	8,039	-	-	8,039	8,039	10,931
Contributions	4,606,589	208,999	-	4,815,588	73,480	-	-	73,480	4,889,068	4,347,969
Contributions in-kind	17,157	-	-	17,157	-	-	-	-	17,157	4,457
Boutique sales	27,412	-	-	27,412	-	-	-	-	27,412	29,720
Special events	-	-	-	-	56,948	-	-	56,948	56,948	261,769
Less: Special events costs	-	-	-	-	(22,235)	-	-	(22,235)	(22,235)	(45,362)
Investment income	1,885	4,778	-	6,663	10,235	-	-	10,235	16,898	10,264
Net sssets released from restrictions	208,442	(208,442)	-	-	-	-	-	-	-	-
TOTAL REVENUE AND SUPPORT	6,853,055	5,335	-	6,858,390	595,906	-	-	595,906	7,454,296	7,250,437
EXPENSES:										
Ballet production	4,847,955	-	-	4,847,955	-	-	-	-	4,847,955	5,619,046
Ballet school	-	-	-	-	574,494	-	-	574,494	574,494	549,372
Marketing and public relations	302,490	-	-	302,490	-	-	-	-	302,490	1,133,550
General and administrative	476,102	-	-	476,102	-	-	-	-	476,102	737,284
Development	169,613	-	-	169,613	-	-	-	-	169,613	168,448
TOTAL EXPENSES	5,796,161	-	-	5,796,161	574,494	-	-	574,494	6,370,655	8,207,701
CHANGE IN NET ASSETS	1,056,893	5,335	-	1,062,228	21,413	-	-	21,413	1,083,641	(957,264)
NET ASSETS (ACCUMULATED DEFICIT), beginning of year	(1,329,968)	101,361	228,306	(1,000,301)	(829,978)	11,143	70,000	(748,835)	(1,749,136)	(791,872)
NET ASSETS (ACCUMULATED DEFICIT), end of year	\$ (273,075)	\$ 106,696	\$ 228,306	\$ 61,927	\$ (808,565)	\$ 11,143	\$ 70,000	\$ (727,422)	\$ (665,495)	\$ (1,749,136)

See notes to financial statements.

BALLET SAN JOSE SILICON VALLEY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE 2010 TOTALS

	Program Services						Support Services				2010 Comparative Totals	
	Ballet Production	Ballet School	Artistic	Costume Shop	Box Office	Marketing & Public Relations	Total Program Services	Management and General	Development	Total Support Services		Totals
Salaries	\$ 718,206	\$ 299,225	\$ 1,409,908	\$ 95,627	\$ 100,631	\$ 116,875	\$ 2,740,472	\$ 292,618	\$ 123,180	\$ 415,798	\$ 3,156,269	\$ 3,860,080
Employee benefits	17,599	38,003	306,154	41,154	12,859	20,250	436,018	17,448	8,851	26,298	462,317	439,069
Payroll taxes	67,335	101,707	120,853	21,838	9,327	9,312	330,372	17,833	10,787	28,620	358,992	355,728
Workers compensation	40,012	5,640	141,596	13,918	6,056	885	208,107	4,801	910	5,711	213,818	270,108
Pension plan	60,199	2,299	-	-	-	-	62,498	-	-	-	62,498	95,607
Total salaries and benefits	903,351	446,874	1,978,510	172,537	128,872	147,323	3,777,467	332,699	143,728	476,427	4,253,894	5,020,592
Production expense	554,023	8,351	85	86,482	-	-	648,941	-	-	-	648,941	1,073,395
Advertising and promotion	331,570	19,812	-	-	-	128,515	479,897	-	-	-	479,897	525,673
Professional services	643	16,695	-	-	-	-	17,338	26,959	-	26,959	44,297	407,398
Occupancy	172,677	37,424	56,935	28,381	10,488	19,352	325,256	24,367	10,780	35,147	360,403	396,919
Printing and publications	43	-	-	10	-	-	53	-	98	98	151	136,067
Bank & credit card fees, late fees	114	14,111	-	-	48,269	-	62,494	15,574	1,605	17,179	79,673	85,547
Travel	15,174	17	(245)	978	-	64	15,988	8	-	8	15,995	74,382
Postage and shipping	126,959	3,642	29	114	2,442	679	133,865	2,100	1,318	3,418	137,282	70,437
Insurance	22,486	3,267	12,525	2,723	1,634	1,634	44,268	4,648	1,634	6,282	50,550	53,380
Patron appreciation	0	-	-	-	-	-	-	-	-	-	-	47,958
Supplies	335	403	52	31	2,293	253	3,367	7,428	91	7,519	10,885	38,274
Interest	-	-	-	-	-	-	-	36,347	-	36,347	36,347	35,948
Box office	15,673	868	-	-	26,666	-	43,207	-	-	-	43,207	34,046
Equipment maintenance and rental	614	837	670	537	1,645	726	5,029	949	670	1,619	6,648	19,102
Telephone	2,138	1,869	1,495	872	1,620	1,620	9,612	2,695	1,495	4,190	13,802	18,510
Dues and subscriptions	-	-	-	-	-	85	85	-	-	-	85	13,439
Education and outreach	-	3,123	-	-	-	-	3,123	-	-	-	3,123	2,464
Miscellaneous	8,355	11,050	-	-	-	-	19,405	6,366	7,502	13,869	33,274	3,908
Totals before depreciation	2,154,155	568,344	2,050,055	292,665	223,928	300,249	5,589,395	460,141	168,920	629,061	6,218,457	8,057,438
Depreciation	115,148	6,150	8,689	2,389	927	2,241	135,544	15,961	693	16,654	152,198	150,263
Total functional expenses	\$ 2,269,303	\$ 574,494	\$ 2,058,744	\$ 295,054	\$ 224,855	\$ 302,490	\$ 5,724,939	\$ 476,102	\$ 169,613	\$ 645,715	\$ 6,370,655	\$ 8,207,701
Percentage of total	35.6%	9.0%	32.3%	4.6%	3.5%	4.7%	89.9%	7.5%	2.7%	10.1%	100.0%	

See notes to financial statements.

BALLET SAN JOSE SILICON VALLEY

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,083,641	\$ (957,264)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Permanently restricted contributions to endowment	-	(145,702)
Depreciation	152,198	150,263
Net realized and unrealized losses on investments	(13,883)	(10,110)
(Increase) decrease in assets:		
Accounts receivable	37,128	(37,666)
Grants and pledges receivables	10,805	78,470
Inventory	13,075	(20,519)
Prepaid expenses and deposits	(6,281)	72,824
Increase (decrease) in liabilities:		
Accounts payable	(1,024,084)	676,368
Accrued expenses	(67,123)	88,010
Deferred production revenue	(5,447)	(31,638)
Deferred tuition revenue	62,782	(8,908)
	<u>242,812</u>	<u>(145,872)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of furniture and equipment	(53,200)	(24,700)
Decrease in endowment and investment funds	273,727	106,664
Purchases of investments	-	(145,702)
Security deposits	(26,985)	-
	<u>193,542</u>	<u>(63,738)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions to endowment	-	145,702
	<u>-</u>	<u>145,702</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	436,354	(63,908)
CASH AND CASH EQUIVALENTS, beginning of year	<u>21,168</u>	<u>85,076</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 457,522</u>	<u>\$ 21,168</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for interest	<u>\$ 60,233</u>	<u>\$ 5,111</u>

See notes to financial statements.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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:

Ballet San Jose celebrated its 25th anniversary season by presenting two full-length works choreographed by Artistic Director Dennis Nahat, opening with "Giselle", followed by the Winter program, "Swan Lake". The season concluded in April with a mixed repertory program of Roland Petit's "Carmen", and George Balanchine's "Who Cares?". These productions were performed at the Center for Performing Arts, in addition to the annual December performances of Nahat's "The Nutcracker".

Both "Giselle" and "Swan Lake" featured guest appearances. Due to the guest appearance of a world-renowned principal dancer from the Royal Ballet and combined with the new interest in ballet generated by the popular film, "The Black Swan", the performances of "Swan Lake" were sold to 98% of total capacity. Record breaking single ticket sales continued with the final repertory program, "Carmen". The famous and familiar score by Georges Bizet, as well as the infamous choreography by Roland Petit, garnered positive reviews from both patrons and critics, as did the ebullient "Who Cares?", classically choreographed by George Balanchine to George Gershwin's upbeat early 20th-century music.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 2. PROGRAM SERVICES (Continued):

Ballet school:

Ballet San Jose School reached maximum enrollment capacity of approximately 400 students in its three divisions: Professional, Open, and Teen/Adult. While all of these students enjoyed professional training from the same exceptional faculty, 100 students were professional-track students, training for potential careers as ballet dancers. These professional students enjoyed opportunities to perform in the corps de ballet in company productions of "Giselle", "The Nutcracker", and "Swan Lake", as well as the school's production of "Silly Simon". Over 60 Open Division students also had the opportunity to perform in "The Nutcracker". The Ballet School summer programming continued with another successful year of its one-week Performance Camp; almost 50 day campers participated in daily sessions of ballet, character, choreography, musical theatre, jazz, costume design, and a boys class. The Ballet School also welcomed more than 130 serious ballet students (local and out-of area) to a four-week Summer Intensive program, instructed by former and current professional dancers, in ballet, men's and women's classes, pointe, partnering, floor barre, jazz, caractere, and flamenco. The Ballet School also benefited from several fundraising events with proceeds targeted to tuition scholarships.

Education and Outreach Programs were offered in service of the company mission to make the performing arts accessible to as broad an audience as possible. In FY11, two Student Matinee performances of "The Nutcracker" were attended by almost 4,000 students from thirty-two schools throughout Santa Clara County and beyond. Another 500 students attended Studio Tours on Friday morning field trips, and of these, fifty students had the enthusiasm and interest to return on Saturday mornings with their guardian/parent's permission to take a First Step beginning ballet class for a full semester, with their dance attire and tuition provided for them by the program. These are the children who are often interested in continuing to study ballet even after their Outreach First Step class has ended, many of whom over the programs' history, have gone on to enroll as open and professional division students.

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.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Concentrations:

For the year ended June 30, 2011, approximately 56% of the Ballet's revenue and support was provided from contributions from one of its board members.

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.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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

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.

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 at the Ballet's performances as well as clothing and supplies sold to the Ballet School's students. All inventories are 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.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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

Contributions in-kind:

Contributions in-kind are also recognized in accordance with professional accounting standards. 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.

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 year ended June 30, 2011 was \$479,897.

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, 2011, 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 2007 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.

Subsequent events:

Management of the Ballet has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through March 3, 2012, 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.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 4. INVESTMENTS (continued):

Investments consisted of the following as of June 30, 2011:

Mutual funds – endowment	\$ 41,880
Mutual funds – other	<u>14</u>
Total investments, long-term	<u>\$ 41,894</u>

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

Investments held by the Ballet as of June 30, 2011 are valued at Level 1 in the fair value hierarchy.

Note 5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2011:

	<u>2011</u>
Furniture and equipment	\$ 2,063,389
Leasehold improvements	<u>374,200</u>
	2,437,589
Less accumulated depreciation	<u>(1,764,165)</u>
Property and equipment, net	<u>\$ 673,424</u>

At June 30, 2011, furniture and equipment includes equipment donated at fair value totaling approximately \$150,000 with related accumulated depreciation of approximately \$145,600 at June 30, 2011. Depreciation expense for the year ended in June 30, 2011 was \$152,198.

Note 6. NOTES PAYABLE:

Notes payable as of June 30, 2011, consisted of the following:

Fry's Electronics:

Secured by substantially all assets of the Ballet, payments due on the first day of each month with interest at Comerica Bank, base rate less 1% annum (2.25% at June 30, 2011), maturity date March 3, 2013. Two members of the Ballet's Board of Trustees are also related parties of Fry's Electronics. A member of the Ballet's Board of is also a member of management at Comerica Bank. \$ 1,517,833

Interest expense was \$36,347 for the year ended June 30, 2011.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets as of June 30, 2011, were available for the following purposes:

Time restrictions:	
Pledges receivable	\$ 20,725
Endowment accumulated earnings - unappropriated	11,121
Purpose restrictions:	
Council activities	3,732
Betts Cartwright school scholarship fund	8,387
Dancer transition fund	<u>73,874</u>
Total temporarily restricted net assets	<u>\$ 117,839</u>

Note 8. PERMANENTLY RESTRICTED NET ASSETS:

As of June 30, 2011 the Ballet School has received \$70,000 towards a permanent endowment fund. The fund requires that the cash be held by the School indefinitely, with interest earned available for scholarships.

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, 2011, the Betts Cartwright Memorial Scholarship endowment fund balance was \$50,000.

The Community Foundation Silicon Valley held 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. In September 2010, these funds were liquidated and transferred to the Ballet with the stipulation that the funds remain permanently restricted. As of June 30, 2011 the fund balance was \$178,306.

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 provide voluntary salary deferrals up to certain amounts as defined by the Plan. The Organization has not contributed to the plan for the year ended June 30, 2011.

Note 10. FUNDRAISING:

Certain fundraising activities are performed for the Ballet by the Ballet San Jose Silicon Valley Council (the "Council") and the Ballet San Jose School Committee. In addition, the Ballet hosts special events and fundraisers as part of its development activities. The summarized activities for the year ended June 30, 2011 consisted of the following:

Contributions	\$ 46,929
Cost of related activities	<u>(19,516)</u>
Net Support Revenue	<u>\$ 27,412</u>

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Special events	\$ 56,948
Cost of related activities	<u>(22,235)</u>
Net Special Events	<u>\$ 34,713</u>

Note 11. CONTRIBUTIONS IN-KIND:

The estimated fair value of donated equipment, supplies and expert services received are recorded as contributions. During the year ended June 30, 2011, the following in-kind contributions were received by the Ballet:

General operations:	
Professional services	\$ 8,500
Food and beverage	430
Supplies and minor equipment	<u>8,227</u>
Total Contributions In-Kind General Operations	<u>\$ 17,157</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 year ended June 30, 2011 amounted to \$82,242. In accordance with professional accounting standards, the value of these services is not reflected in the financial statements.

Note 12. OTHER 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 year ended June 30, 2011, contributions received from the board members and companies they control were \$4,152,000.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 12. OTHER RELATED PARTY TRANSACTIONS (continued):

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, 2011 amounts to \$54,517.

Note 13. ENDOWMENT:

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:

- (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 \$8,121 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that have occurred since 2008.

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

Note 13. ENDOWMENT (continued):

Investment return objectives, risk parameters and strategies:

The Ballet's return objectives for endowment funds 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 Board of Directors.

Endowment net asset composition by type of fund as of June 30, 2011 consisted of the following:

Betts Cartwright Endowment Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2010	\$ (18,206)	\$ -	\$ 50,000	\$ 31,794
Investment income	10,086	-	-	10,086
Endowment Net Assets, June 30, 2011	<u>\$ (8,121)</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 41,880</u>

Ballet School Endowment

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2010	\$ -	\$ 11,143	\$ 70,000	\$ 81,143
Investment income	-	-	-	-
Endowment Net Assets, June 30, 2011	<u>\$ -</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, 2010	\$ -	\$ 759	\$ 178,306	\$ 179,065
Activities:				
Appropriated expenditures	-	(759)	-	(759)
Transfers	-	-	-	-
Endowment Net Assets, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,306</u>	<u>\$ 178,306</u>

BALLET SAN JOSE SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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 the year ended June 30, 2011.

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 year ended June 30, 2011 was approximately \$160,000.

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

Year Ending, <u>June 30,</u>	
2012	\$ 168,153
2013	175,317
2014	182,589
2015	189,987
2016	<u>197,511</u>
	<u>\$ 913,557</u>

Note 15. CONTINGENCIES:

The Ballet is aware of certain asserted and unasserted legal claims that arise in the normal course of business. While the outcome cannot be determined at this time, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on the Ballet's financial position.