GALLO CENTER
FOR THE ARTS

September 10, 2010

Board of Supervisors
County of Stanislaus
1010 10th Street, Suite 6800
Modesto, CA 95354

RE: Audited Year End Financials for Y/E 6/30/10

Ladies and Gentlemen:

Enclosed is a copy of the fiscal year ending June 30, 2010 audited consolidated financial statements for Central Valley Center for the Arts, Inc. and Subsidiaries. This is delivered pursuant to Section 14.4 Audited Financial Statements of the Operating Agreement between the County of Stanislaus, the Gallo Center for the Arts, LLC and the Central Valley Center for the Arts, Inc. While the agreement only requires reporting of Gallo Center for the Arts, LLC, the Center has elected to provide financial statements for the consolidated company and provide company specific information as supplemental schedules accompanying the consolidated financial statements.

As the Director of Finance for the organizations, I certify that to the best of my knowledge and belief, these statements present fairly the financial position of the entities as of June 30, 2010.

Sincerely,

Bryan Branco
Director of Finance

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

for the year ended June 30, 2010

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Central Valley Center for the Arts, Inc.

We have audited the accompanying consolidated statement of financial position of Central Valley Center for the Arts, Inc. and Subsidiary (a California nonprofit corporation) (the Center) as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's June 30, 2009 consolidated financial statements and, in our report dated October 28, 2009, we expressed an unqualified opinion on those consolidated 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Center as of June 30, 2010, and the consolidated 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.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules on pages 23 and 24 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Burr Pilger Mayer, Inc.

San Francisco, California
September 9, 2010

BURR PILGER MAYER, INC.
600 CALIFORNIA STREET, SUITE 1300, SAN FRANCISCO, CA 94108 TEL (415) 421-5757 FAX (415) 288 6288

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010
with comparative totals for 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,351,757	$ 4,353,552
Cash held in trust for resident companies	39,746	47,195
Receivables:		
Contributions, net	1,441,187	1,355,761
Other	7,351	100,568
Prepaid expenses and other assets	197,293	170,207
Total current assets	6,037,334	6,027,283
Noncurrent assets:		
Investments	500,000	-
Net contributions receivable, long-term portion	1,759,434	1,901,823
Bond issuance costs, net	254,369	265,117
Property and equipment, net	42,498,493	43,568,984
Endowment funds cash and cash equivalents	15,853,212	15,739,327
Total noncurrent assets	60,865,508	61,475,251
Total assets	$ 66,902,842	$ 67,502,534
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 376,919	$ 435,965
Due to resident companies	39,746	47,195
Deferred revenue	797,272	388,353
Current portion of bonds payable	250,000	225,000
Total current liabilities	1,463,937	1,096,513
Noncurrent liabilities:		
Fair value of interest rate swap	1,204,228	808,410
Bonds payable, net of current portion	12,925,000	13,175,000
Total noncurrent liabilities	14,129,228	13,983,410
Total liabilities	15,593,165	15,079,923
Net assets:		
Unrestricted–undesignated	16,459,281	18,393,520
Unrestricted–board designated	867,625	451,583
Total unrestricted	17,326,906	18,845,103
Temporarily restricted	18,661,310	18,264,027
Permanently restricted	15,321,461	15,313,481
Total net assets	51,309,677	52,422,611
Total liabilities and net assets	$ 66,902,842	$ 67,502,534

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

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
for the year ended June 30, 2010
with comparative totals for 2009

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009
Operating revenues:					
Ticket sales	$ 3,125,273	$ -	$ -	$ 3,125,273	$ 2,680,225
Facility use income	522,035	-	-	522,035	511,591
Operating investment income	18,951	-	-	18,951	34,929
Other income	617,757	-	-	617,757	595,146
Total operating revenues	4,284,016	-	-	4,284,016	3,821,891
Operating expenses:					
General and administrative	682,109	-	-	682,109	814,586
Program	7,070,705	-	-	7,070,705	7,630,873
Total operating expenses	7,752,814	-	-	7,752,814	8,445,459
Operating loss before contribution income	(3,468,798)	-	-	(3,468,798)	(4,623,568)
Contribution income:					
Contributions	1,392,450	1,602,546	-	2,994,996	942,750
In-kind donations	81,327	87,500	-	168,827	1,026,022
Special events:					
Ticket sales	-	-	-	-	174,975
Less: direct expenses	-	-	-	-	(181,686)
Total special events	-	-	-	-	(6,711)
Net assets released from restrictions–operating	1,284,487	(1,284,487)	-	-	-
Total contribution income	2,758,264	405,559	-	3,163,823	1,962,061
Less: fund-raising expenses	(417,131)	-	-	(417,131)	(374,507)
Less: loss for uncollectible promise to give	5,286	(53,499)	-	(48,213)	(64,538)
Net contribution income	2,346,419	352,060	-	2,698,479	1,523,016
Operating (loss) income	(1,122,379)	352,060	-	(770,319)	(3,100,552)
Nonoperating items:					
Nonoperating investment income	-	45,223	7,980	53,203	266,493
Change in net assets before unrealized losses on swap	(1,122,379)	397,283	7,980	(717,116)	(2,834,059)
Unrealized losses on swap	395,818	-	-	395,818	508,204
Change in net assets	(1,518,197)	397,283	7,980	(1,112,934)	(3,342,263)
Net assets, beginning of year	18,845,103	18,264,027	15,313,481	52,422,611	55,764,874
Net assets, end of year	$ 17,326,906	$ 18,661,310	$ 15,321,461	$ 51,309,677	$ 52,422,611

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

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended June 30, 2010
with comparative totals for 2009

	2010	2009
Cash flows from operating activities:		
Decrease in net assets	$ (1,112,934)	$ (3,342,263)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Contributions restricted for long-term purposes	-	(70,087)
Investment income restricted for long-term purposes	(7,980)	(39,974)
In-kind donations	(168,827)	(964,788)
Depreciation and amortization	1,087,856	1,100,818
Change in discount on contributions receivable	(53,025)	97,063
Unrealized loss on interest rate swap	395,818	508,204
Amortization of bond issuance costs	10,748	10,748
Bad debt expense	48,213	64,538
Loss on disposal of assets	307	-
Changes in operating assets and liabilities:		
Net (increase) decrease in contributions receivable	(660,544)	472,124
Net decrease (increase) in other receivables	93,217	(55,660)
Net (increase) decrease in prepaid expenses and other assets	(27,086)	123,114
Net decrease in accounts payable and accrued expenses	(59,046)	(29,324)
Net increase in deferred revenue	408,919	48,474
Net cash used in operating activities	(44,364)	(2,077,013)
Cash flows from investing activities:		
Purchases of endowment fund investments	(113,885)	(114,719)
Purchases of property and equipment	(17,672)	(121,821)
Purchase of operating investments	(500,000)	-
Net cash used in investing activities	(631,557)	(236,540)
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes	891,146	1,070,345
Investment income restricted for long-term purposes	7,980	39,974
Principal payments on bonds	(225,000)	(200,000)
Net cash provided by financing activities	674,126	910,319
Net decrease in cash and cash equivalents	(1,795)	(1,403,234)
Cash and cash equivalents, beginning of year	4,353,552	5,756,786
Cash and cash equivalents, end of year	$ 4,351,757	$ 4,353,552
Supplemental cash flow information:		
Interest paid	$ 333,409	$ 395,014
Taxes paid	$ 19,195	$ 34,319
Noncash investing and financing activities:		
In-kind property and equipment donations	$ -	$ 61,234

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

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. **Organization and Significant Accounting Policies**

General

Central Valley Center for the Arts, Inc. (a nonprofit California corporation) (CVCA) is a nonprofit public-benefit corporation established to receive, acquire, hold, manage, administer, and expend property and funds for charitable and public purposes, and to support and encourage the arts in the Central Valley of California. Specific activities include creating a permanent, irrevocable endowment fund and conducting fund-raising events to receive gifts, money or property, and to provide financial support for the operation of a regional arts center (the Performing Arts Center) in Stanislaus County.

Gallo Center for the Arts, LLC (GCA, LLC), a single member California Limited Liability Company, was established by Central Valley Center for the Arts, Inc. to lease and operate the Performing Arts Center. The Performing Arts Center is owned by Stanislaus County (the County).

Gallo Center for the Arts, Inc. (GCA, Inc.) is an inactive corporation in good standing with the Secretary of State of California. It is incorporated as a nonprofit public-benefit corporation and is organized under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The specific purpose of this corporation will be to operate a multi-venue arts center and to receive, acquire, hold, manage, administer, and expend property and funds for charitable and public purposes to support and encourage the arts in the Central Valley, including but not limited to, conducting fund-raising to receive gifts, money or property, and to provide financial support for the operation of a regional arts center in Stanislaus County. This corporation was inactive for the year ended June 30, 2010, but it assumed the operations of GCA, LLC on July 1, 2010.

As shown in these consolidated financial statements, the Center has incurred recurring losses from operations. This raises concern about the Center's ability to recover the cost of long-term assets. Management implemented changes to operations during the year ended June 30, 2010 which resulted in a dramatic improvement in cash flows and the Center is working to institute a more efficient show management process, increase contributions, and increase and find new sources of revenue. Management believes these factors will contribute toward achieving successful operations. The consolidated financial statements do not include any adjustments that might be necessary if the Center is unable to achieve successful operations.

Consolidation

The accompanying consolidated financial statements include the accounts of CVCA and GCA, LLC (together, the Center). All intercompany accounts and transactions have been eliminated. GCA, Inc. is not a subsidiary of CVCA and currently has no assets, liabilities, or operations and thus, has not been included in the consolidation.

Continued

1. **Organization and Significant Accounting Policies**, continued

Nature of Activities

The following programs and supporting services are included in the accompanying financial statements:

Program–Expenses directly related to managing and operating the Center, including the cost of artists and other performance-related expenses. Program also includes the costs related to the *Pathways to Creativity* series which teaches academic content, social responsibility, and life skills through theater-based experiences delivered to school-aged youth.

General and Administrative–Support services include direct business management salaries and related expenses, and indirect allocations of other expenses identified that include a component of general administration.

Fund-raising–Support services include expenses related to the Center's fund-raising efforts to continue providing the structure necessary to encourage and secure public financial support. Fund-raising also includes the costs of obtaining sponsors for programs and program series.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted Net Assets–Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets are further designated by the following funds:

Undesignated–Resources available to support the Center's operations and temporarily restricted resources that have been released of their intended restriction and made available for use by the Center in accordance with the intentions of the donors.

Board Designated–Funds earned through capital restoration fees charged on ticket sales, to be used for future restoration projects to the Performing Arts Center and funds in endowment accounts in excess of restricted amounts to be used at the discretion of the Board.

Temporarily Restricted Net Assets–Net assets that are subject to donor-imposed restrictions which can be fulfilled either by actions of the Center pursuant to those stipulations and/or expire with the passage of time.

When the Performing Arts Center commenced operations, all restrictions from funds which had been temporarily restricted for construction or preopening expenses were released from restriction.

Permanently Restricted Net Assets–Net assets that are subject to donor-imposed restrictions that they be retained permanently by the Center. The donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

Continued

1. **Organization and Significant Accounting Policies**, continued

Basis of Accounting, continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments are reported as increases or decreases in temporarily restricted net assets unless their use is otherwise restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

The Center considers all highly liquid instruments purchased with an initial maturity of three months or less to be cash equivalents. Funds restricted for the endowment are invested in cash and cash equivalents, but are presented as noncurrent assets and not available for operations. The Center invested in two-year certificates of deposits, which are classified as long-term investments. Additionally, cash held in trust for resident companies is excluded from cash and cash equivalents and presented separately in the statement of financial position.

Contributions Receivable

Contributions receivable consist of pledges that are primarily from residents and businesses located in Stanislaus County, California.

Payments of these pledges have been promised over a period of generally one to five years and have been discounted to net present value using U.S. Treasury rates at the time the pledge was made ranging from 0.72% to 3.47% plus an additional 0.5% for market factors.

The Center accretes the discount over the term of the pledge as a component of contribution revenue. During the year ended June 30, 2010, the Center accreted $53,025 of the unamortized discount to contribution revenue.

The Center continually monitors donors and customers' creditworthiness and recognizes allowances for estimated bad debts on donor and customer accounts that are no longer estimated to be collectible. The Center adjusts any allowance for subsequent collections upon final determination that an account or contribution receivable is no longer collectible.

Other Receivables

Other receivables consist of amounts related to concessions and accrued interest.

Continued

1. **Organization and Significant Accounting Policies**, continued

Property and Equipment

The Performing Arts Center and other property and equipment purchased are stated at cost. Repairs and maintenance are charged to expense as incurred. Interest expense on financing incurred for construction of the Performing Arts Center was capitalized and reduced by any interest income earned on the proceeds held by the Center.

The Center depreciates the Performing Arts Center, including costs incurred by the County, using the straight-line method over the 40 year and two 20 year extensions for the total 80 year expected term of the Performing Arts Center lease. Leasehold improvements are depreciated over the shorter of the estimated useful life or remaining expected life of the lease. Depreciation for all other property and equipment is computed using the straight-line method over the estimated useful lives ranging from 3 to 40 years.

Contributed property and equipment or assets restricted for the purchase of property and equipment is recorded at the estimated fair value of the asset at the date of donation. In the absence of donor stipulations regarding how the contributed property and equipment or assets restricted for the purchase of property and equipment must be used, the Center has adopted a policy of releasing restrictions on contributions of such assets once they have been placed into service.

Bond Issuance Costs

Bond issuance costs have been capitalized and are being amortized over the remaining life of the underlying bonds payable. During the year ended June 30, 2010, the Center amortized $10,748 of bond issuance costs.

Fair Value Measurements

Fair Value Measurement—Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Center uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Center. Unobservable inputs are inputs that reflect the Center's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. **Organization and Significant Accounting Policies**, continued

Fair Value Measurements, continued

Fair Value Measurement—Definition and Hierarchy, continued

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1–quoted prices in active markets for identical investments.

Level 2–other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

Level 3–significant unobservable inputs (including the Center's own assumptions in determining fair value investments).

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Substantially all of the cash and cash equivalents, investments, and endowment funds are invested in marketable securities and are deemed to be Level 1 within the valuation hierarchy.

The Center has a fixed/float interest rate swap (see Note 8) to hedge against fluctuations in interest rates. Fair value is provided on a monthly basis by the Center's bank and represents current settlement value based on mid-market values obtained by the bank. This swap is deemed to be Level 2 within the valuation hierarchy.

Endowments

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these consolidated financial statements. For the year ended June 30, 2010, loan restrictions required endowment funds be held in highly liquid short-term investments. Earnings were below the target returns. The endowment donors agreed to the restrictive nature of the investments when funds were contributed in order to secure the letter of credit (see Note 8). Additional disclosures about the Center's endowment funds (both donor-restricted and board-designated endowment funds) whether or not the Center is subject to UPMIFA have been included for the year ended June 30, 2010.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. **Organization and Significant Accounting Policies**, continued

Endowments, continued

Interpretation of Relevant Law

The Board of the Center, on the advice of legal counsel, has interpreted California's enacted version of 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 Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. 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 Center in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

To achieve that objective, the Center has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are currently invested in short-term fixed income securities. The Center's spending policy is intended to result in a consistent rate of return that has sufficient liquidity to make an annual distribution of up to 5%, while growing the fund if possible. Over the long-term, once the bonds are paid down (see Note 8), the Center expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Given current economic conditions, management believes these objectives will not be met in the near term. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

In accordance with the State of California's enacted version of UPMIFA, the Center 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 Center and the endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Center
(7) The investment policies of the Center

The Center has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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1. **Organization and Significant Accounting Policies**, continued

Endowments, continued

Spending Policy, continued

In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, once the bonds are paid down (see Note 3), the Center expects the spending policy to allow its endowment to grow at an average of 3% annually, net of appropriations. Given current economic conditions, management believes these objectives will not be met in the near term.

Investment Policy, Strategies, and Objectives

The Center has adopted investment and spending policies for endowment assets, however, currently all endowment assets are used as collateral for the bonds payable (see Note 8) and subject to investment restrictions by loan covenants to short-term fixed income securities.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles (GAAP), there were no deficiencies of this nature as of June 30, 2010.

Interest Rate Swap

The Center uses an interest rate swap to effectively create a fixed rate of interest on $9.8 million of floating rate debt (see Note 8). The interest rate swap is recognized on the consolidated statement of financial position at fair value. Fair value of the swap is based on its current settlement value. The swap counterparty will receive or make periodic payments to the Center equal to any net difference between the fixed and floating rate. The amounts received from or paid to the swap counterparty are included as a component of interest expense. Changes in the underlying value of the swaps are recorded as unrealized gains or losses on interest swap in the consolidated statement of activities and changes in net assets based on the change in the interest swap's fair value.

Operating Revenues

Ticket sales are recorded as operating revenues on a specific performance basis. Deferred revenues, representing the receipt of ticket sale payments for future performances, are initially deferred in the statement of financial position and are subsequently recognized as revenue when the related performances take place. Facility use income is recognized once the related event has occurred. Other income consists primarily of concessions, parking, and service fees. Revenue is either recognized once evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable and collection is probable, or when the nonrefundable transaction has occurred. Special events consist of ticket sales and the applicable expenses related to the season opening gala. There was no season opening gala during the year ended June 30, 2010.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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1. **Organization and Significant Accounting Policies**, continued

Operating Expenses

Costs of performances are recorded as expenses in the year the related performance occurs. Costs relating to future performances are classified as prepaid expenses until the performance occurs.

Contribution Income

Contributions are considered to be available for unrestricted use unless specifically or implicitly restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific or implied purposes are reported as temporarily restricted or permanently restricted support. When a temporary restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions of property and equipment or assets restricted to the purchase of property and equipment are recognized as temporarily restricted until the property is placed into service, at which time the assets are released from restriction.

Amounts received under conditional pledges are recorded as advances from donors until underlying conditions have been met. As of June 30, 2010, the Center has a promise to give for $500,000 that is conditioned upon the ability to raise new and increased donations of at least $1 million over a two year period. This promise to give will be recognized as revenue when the condition is met in future years.

The County's portion of the Performing Arts Center costs have been recognized as a contributed use of a long-lived asset in the amount of $17,302,673, when the asset was placed in service in September 2007. The Center recognizes contributions for the use of long-lived assets as temporarily restricted contributions. Restrictions are released into unrestricted revenues straight-line over the remaining period of use of such assets.

The Center has contracted with a third party to accept vehicle donations. The Center receives a portion of the proceeds from the sale of vehicles, which are reported as unrestricted contributions.

In-kind Contributions

The Center receives donated services from unpaid volunteers who assist in the management, operation, and fund-raising of the Center. Only services that meet the required recognition criteria under accounting principles generally accepted in the United States are recognized as income and expense. Contributed property and equipment is recorded at its estimated fair value. The Center received professional services, accommodations, and advertising during the year ended June 30, 2010 in the amount of $168,827, which have been recorded as in-kind donations and assets or expenses.

Continued

1. **Organization and Significant Accounting Policies**, continued

Advertising

Advertising costs are charged to expense as incurred. Advertising expenses for the year ended June 30, 2010 were $651,250, including $103,863 recorded as in-kind contributions.

Functional Allocation of Expenses

The Center's expenses are summarized on a functional basis in the consolidated statement of activities and changes in net assets.

Measure of Operations

The Center's measure of operations is its operating income (loss), which includes all unrestricted operating revenues and expenses that are an integral part of its programs and supporting activities. Unrestricted contributions and net assets released from donor restrictions to support its operating activities are also included, except certain nonrecurring items. The measure of operations excludes nonrecurring activities such as investment returns, and release of restrictions related to the capital campaign.

Use of Estimates

The preparation of the consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

CVCA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, CVCA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

GCA, LLC is not subject to federal income taxes on earnings, since all income or loss from its operations is allocated to its single member, CVCA, which is exempt from federal and state income tax. GCA, LLC is subject to a minimum state franchise tax of $800 annually plus a fee based on gross receipts.

GCA, Inc. is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and similar state statutes, and is exempt from federal and state income taxes. It was inactive for the year ended June 30, 2010.

Continued

1. **Organization and Significant Accounting Policies**, continued

Income Tax Status, continued

Income from certain activities not directly related to the Center's tax-exempt purpose is subject to taxation as unrelated business income. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The income derived from the publication of brochures for shows and certain sponsorship and facility use income is considered unrelated business income. Since related expenses exceeded the income, no provision for income taxes has been accrued.

Effective July 1, 2008, the Center began reviewing and assessing tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition.

The Center's policy for evaluating uncertain tax positions is a two step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Center, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Center.

Comparative Financial Statements

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements in order to conform to the current year presentation.

FASB Codification

In June 2009, the Codification, a single source of authoritative nongovernmental GAAP, superseding existing Financial Accounting Standards Board (FASB), American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature, was created. The Codification reorganized a large number of pronouncements issued by various standard setters into roughly 90 accounting topics and displays them using a consistent structure. The Codification is effective for interim or annual financial periods ending after September 15, 2009 and therefore was adopted by the Center for reporting in the fiscal year ended June 30, 2010. The adoption did not have a material impact on the Center's financial position, statements of activities and changes in net assets, and cash flows.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2010:

Receivable in fiscal year ending June 30:	
Due in less than one year	$ 1,491,872
Due in one to five years	1,905,152
Due in more than 5 years	280
	3,397,304
Less: allowance for uncollectible contributions receivable	(50,685)
Less: unamortized discount	(145,998)
Total	$ 3,200,621

3. Endowment Funds

The Center received three permanently restricted endowment pledges totaling $15 million. The endowment agreements provide that an amount equal to the lesser of 85% of the income from and net appreciation of fair market value of the endowment funds in each year, or 15% of the fair market value at the beginning of each year, will be available for certain purposes and is classified as temporarily restricted for such purposes. The balance of income and net appreciation earned on the endowment funds are to be added to the corpus and will remain permanently restricted. The endowment funds serve as collateral for the letter of credit financing (see Note 8). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	$ -	$ 45,223	$15,321,461	$15,366,684
Board-designated endowment funds	486,528	-	-	486,528
Total funds	$ 486,528	$ 45,223	$15,321,461	$15,853,212

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. **Endowment Funds**, continued

Changes in endowment net assets as of June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 260,009	$ 226,519	$15,313,481	$15,800,009
Investment income	-	45,223	7,980	53,203
Amounts appropriated for expenditure	226,519	(226,519)	-	-
Endowment net assets, end of year	$ 486,528	$ 45,223	$15,321,461	$15,853,212

4. **Property and Equipment**

Property and equipment consisted of the following at June 30, 2010:

Computer equipment and software	$ 418,675
Furniture and equipment	250,025
Capital lease–Performing Arts Center	45,008,819
	45,677,519
Less: accumulated depreciation	(3,179,026)
Total	$ 42,498,493

Depreciation and amortization expense for the year ended June 30, 2010 was $1,087,856.

5. **Net Assets**

The Center's Board of Directors has chosen to place the following limitations on unrestricted net assets as of June 30, 2010:

Designated for endowment	$ 486,528
Designated for repairs and maintenance	381,097
Undesignated	16,459,281
Total unrestricted net assets	$ 17,326,906

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. **Net Assets**, continued

Temporarily restricted net assets as of June 30, 2010 are available for the following purposes or periods:

Endowment time restrictions	$ 45,223
Other time restrictions	317,197
Educational programs–CSU Stanislaus	100,000
Arts education for children	285,882
Underprivileged children	1,155,100
Use of Performing Arts Center	16,707,908
Other	50,000
Total temporarily restricted net assets	$ 18,661,310

Temporarily restricted net assets released during the year ended June 30, 2010 were as follows:

Release of time restriction for operations	$ 226,519
Arts education and underprivileged youth	326,899
Performances	364,499
Capacity building	103,962
Capital campaign	46,332
Use of Performing Arts Center	216,276
Total temporarily restricted net assets released	$ 1,284,487

6. **Financial Instruments**

The estimated fair values of financial instruments have been determined by the Center using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value.

Accordingly, the values are not necessarily indicative of the amounts that the Center could realize in a current market exchange and it is reasonably possible that the assumptions used by the Center in estimating fair value could change in the near term.

At June 30, 2010, the Center believes that the carrying values of its financial instruments approximate fair value. For all cash and cash equivalents, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of contributions receivable is estimated by discounting the future cash flows using a risk-free rate of return. The fair value of the Center's long-term debt is estimated using rates believed to be currently available for debt with similar terms and maturities. Fair value of the swap is based on its current settlement value.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. **Construction of Performing Arts Center**

In February 2004, the Center entered into a series of agreements under which the Center and the County agreed to finance and construct the Performing Arts Center for approximately $35 million. The County provided funding of up to $15 million, paid by $12.5 million in cash, partially financed by the County's issuance of certificates of participation (COPs), and land valued at $2.5 million. The Center provided the balance of the construction and certain equipment costs funded through proceeds from a bond issuance and contributions received. Construction was completed and the Performing Arts Center was opened on September 10, 2007.

Under the terms of an operating agreement with the County, the Center has the right to operate the Performing Arts Center for an initial noncancelable period of 40 years for $1 per year, with an option to renew the lease for two consecutive 20-year periods for $1 per year. The County will retain title to the Performing Arts Center building and land, which has been pledged as collateral for the County's COPs.

The operating agreement between the County and the Center is subordinate to the County's COPs. Renewal options require that there be no default under the Center's operating agreement with the County. The 40-year term commenced upon opening of the Performing Arts Center.

For accounting purposes, the Center was treated as the owner of the Performing Arts Center and was required to record the full costs of the construction, including that portion financed by the County.

Upon completion of the Performing Arts Center in the year ended June 30, 2008, the Center recognized the County's portion of center costs as temporarily restricted contribution revenue. The County's contribution is considered a contributed use of a long-lived asset and temporarily restricted funds are being released over the estimated term of use. Additionally, the City of Modesto (City) contributed an additional $740,428 for the costs of construction in the year ended June 30, 2008, which received the same treatment as the County's contribution.

The operating lease qualified for treatment as a capital lease. The total costs of construction incurred by the Center, as well as the fair market value of the County and City's contribution, were capitalized to property and equipment in the consolidated statement of financial position.

As of June 30, 2010, the total costs capitalized to property and equipment related to the Center's portion of the Performing Arts Center construction were $27,706,146, which includes $2,724,452 of capitalized interest income used toward construction and interest expense on bonds used to finance construction. The total Performing Arts Center costs capitalized to property and equipment, before depreciation, were $45,008,819.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. **Bonds Payable**

To provide funds for construction of the Performing Arts Center, the Center obtained financing through Stanislaus County Capital Improvements Financing Authority (the Authority) in March 2004. The Authority issued $14 million of variable rate demand bonds and loaned the proceeds to the Center. Neither the County nor the Authority is financially responsible for the repayment of these bonds. The bondholders must look solely to the Center or an underlying letter of credit described further below for repayment. The loan agreement between the Authority and the Center includes covenants which limit the Center's future indebtedness in excess of $2 million and requires certain insurance levels and maintenance of the Center's facilities.

The bonds are variable rate bonds and have weekly rate reset modes, with a maximum rate of 12%. However, in certain circumstances, the bonds can convert to term interest rates. The bonds have a final stated maturity of 2034. The interest rate for the variable debt for the year ended June 30, 2010 averaged 2.50%. In March 2004, the Center entered into an interest rate swap to manage the interest rate exposure on the variable rate demand revenue bonds, with a termination date of March 1, 2019.

The swap is with a national bank. The Center has agreed to make 3.29% fixed rate payments and receive floating payments derived from the U.S. dollar LIBOR rate on a notional amount of $9.8 million. The interest rate swap does not represent a perfect correlation between the U.S. market rate for floating debt and LIBOR (London Interbank Offered Rate) used to compute the offsetting payment due to or from the counterparty. At June 30, 2010, the underlying value of the swap was an unrealized loss of $1,204,228, which the Center has recorded as a liability.

The bonds may be subject to redemption at the option of the bondholders. The Center entered into a letter-of-credit and reimbursement agreement (LOC) with a national bank (the Bank). A remarketing agreement is in place whereby all optionally redeemed bonds are to be remarketed.

Any excess of optional redemptions over proceeds from remarketing is to be satisfied by the LOC. In such an event, draws on the LOC would become currently due and payable. The LOC provides for an annual fee which during the year ended June 30, 2010, approximated $135,000. The fee is calculated on a sliding scale based on the Center's liquidity and outstanding bond principal.

Under the terms of the LOC, bondholders can draw principal and interest payments in the event the Center is unable to meet interest and principal redemption requirements. The LOC requires the Center to be in compliance with certain covenants and the Center was in compliance with those covenants. The LOC expires in March 2014. The bank has informally notified the Center of its intent not to renew the LOC with the same terms.

The Center has pledged certain cash and cash equivalents, contributions receivable, investments, and equipment as collateral for the LOC. In addition to limiting future indebtedness to $2 million, the LOC places limits on capital expenditures and requires compliance with certain financial covenants.

Interest expense approximated $334,000, including certain fees, for the year ended June 30, 2010.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. **Bonds Payable**, continued

Future principal payments due on the bonds, annually on March 1st, with quarterly sinking fund payments, are as follows:

Year ending June 30:	
2011	$ 250,000
2012	275,000
2013	300,000
2014	325,000
2015	350,000
Thereafter	11,675,000
	$ 13,175,000

9. **Employee Benefit Plan**

The Center has a 403(b) plan. Under this plan, all employees were eligible to participate with no minimum age requirement or service requirement. The Center was not required to make any contributions to the plan on behalf of the employees. During the year ended June 30, 2010, the Center terminated the 403(b) plan.

During the year ended June 30, 2010, the Center had a 401(k) plan, which covers substantially all full-time employees. Contributions are at the discretion of the Center. Total contributions paid to this plan for the year ended June 30, 2010 totaled $31,849.

10. **Related Party Transactions**

During 2010, contributions from board members totaled $641,526. Undiscounted contributions receivable from such related parties were $399,375 at June 30, 2010.

11. **Concentrations of Credit Risk**

Cash and Cash Equivalents and Endowment Funds

Financial instruments that potentially subject the Center to credit risk consist primarily of cash, cash equivalents, and certificates of deposit. The Center maintains cash, cash equivalents, and certificates of deposit with three major financial institutions. As of June 30, 2010, the Center was in excess of the federal depository insurance limit of $250,000.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. **Concentrations of Credit Risk**, continued

Cash and Cash Equivalents and Endowment Funds, continued

Cash and cash equivalents and endowment funds are invested in the following types of instruments with the following institutions as of June 30, 2010:

Bank of America:	
Bank deposits	$ 772,198
Certificate of deposit	17,648,326
Money market	1,536,242
	19,956,766
Morgan Stanley:	
Money market	36,293
	36,293
Merrill Lynch:	
Bank deposits	103,849
Money market	147,808
	251,657
Rabobank:	
Certificate of deposit	500,000
	500,000
Total	$ 20,744,716

Contributions Receivable

Approximately 68% of contributions receivable were due from two donors as of June 30, 2010.

Contributions

During the year ended June 30, 2010, two donors accounted for approximately 47% of total contributions.

Facility Use Income

During the year ended June 30, 2010, three users of the facility accounted for approximately 43% of total facility use income.

Continued

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(a nonprofit California corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

12. Subsequent Events

The Center evaluated subsequent events for recognition and disclosure through September 9, 2010, the date which these financial statements were available to be issued. Management noted that on July 1, 2010, GCA, Inc. assumed the operations of GCA, LLC.

SUPPLEMENTAL SCHEDULES

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2010

	CVCA	GCA	Total	Eliminations Increase (Decrease)	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,619,305	$ 732,452	$ 4,351,757	$ -	$ 4,351,757
Cash held in trust for resident companies	-	39,746	39,746	-	39,746
Receivables:					
Contributions, net	853,946	587,241	1,441,187	-	1,441,187
Other	5,033	2,318	7,351	-	7,351
Prepaid expenses and other assets	1,306,583	197,293	1,503,876	(1,306,583)	197,293
Total current assets	5,784,867	1,559,050	7,343,917	(1,306,583)	6,037,334
Noncurrent assets:					
Investments	250,000	250,000	500,000	-	500,000
Net contributions receivable, long-term portion	1,132,715	626,719	1,759,434	-	1,759,434
Bond issuance costs, net	-	254,369	254,369	-	254,369
Property and equipment, net	-	42,498,493	42,498,493	-	42,498,493
Endowment funds cash and cash equivalents	15,853,212	-	15,853,212	-	15,853,212
Investment in GCA	13,239,278	-	13,239,278	(13,239,278)	-
Total noncurrent assets	30,475,205	43,629,581	74,104,786	(13,239,278)	60,865,508
Total assets	$ 36,260,072	$ 45,188,631	$ 81,448,703	$ (14,545,861)	$ 66,902,842
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	$ -	$ 1,683,502	$ 1,683,502	$ (1,306,583)	$ 376,919
Due to resident companies	-	39,746	39,746	-	39,746
Deferred revenue	-	797,272	797,272	-	797,272
Current portion of bonds payable	-	250,000	250,000	-	250,000
Total current liabilities	-	2,770,520	2,770,520	(1,306,583)	1,463,937
Noncurrent liabilities:					
Fair value of interest rate swap	-	1,204,228	1,204,228	-	1,204,228
Bonds payable, net of current portion	-	12,925,000	12,925,000	-	12,925,000
Total noncurrent liabilities	-	14,129,228	14,129,228	-	14,129,228
Total liabilities	-	16,899,748	16,899,748	(1,306,583)	15,593,165
Net assets:					
Unrestricted–undesignated	20,081,701	(3,622,420)	16,459,281	-	16,459,281
Unrestricted–board designated	486,528	381,097	867,625	-	867,625
Total unrestricted	20,568,229	(3,241,323)	17,326,906	-	17,326,906
Temporarily restricted	370,382	31,530,206	31,900,588	(13,239,278)	18,661,310
Permanently restricted	15,321,461	-	15,321,461	-	15,321,461
Total net assets	36,260,072	28,288,883	64,548,955	(13,239,278)	51,309,677
Total liabilities and net assets	$ 36,260,072	$ 45,188,631	$ 81,448,703	$ (14,545,861)	$ 66,902,842

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(a nonprofit California corporation)

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

for the year ended June 30, 2010

	CVCA	GCA	Total	Eliminations Increase (Decrease)	Consolidated
Operating revenues:					
Ticket sales	$ -	$ 3,125,273	$ 3,125,273	$ -	$ 3,125,273
Facility use income	-	522,035	522,035	-	522,035
Operating investment income	14,326	4,625	18,951	-	18,951
Other income	-	617,757	617,757	-	617,757
Total operating revenues	14,326	4,269,690	4,284,016	-	4,284,016
Operating expenses:					
General and administrative	6,833	675,276	682,109	-	682,109
Program	883	7,069,822	7,070,705	-	7,070,705
Total operating expenses	7,716	7,745,098	7,752,814	-	7,752,814
Operating income (loss) before contribution income	6,610	(3,475,408)	(3,468,798)	-	(3,468,798)
Contribution income:					
Contributions	125,378	2,869,618	2,994,996	-	2,994,996
In-kind donations	-	168,827	168,827	-	168,827
Net assets released from restrictions–operating	-	-	-	-	-
Total contribution income	125,378	3,038,445	3,163,823	-	3,163,823
Less: fund-raising expenses	-	(417,131)	(417,131)	-	(417,131)
Less: loss for uncollectible promise to give	5,573	(53,786)	(48,213)	-	(48,213)
Net contribution income	130,951	2,567,528	2,698,479	-	2,698,479
Operating income (loss)	137,561	(907,880)	(770,319)	-	(770,319)
Nonoperating items:					
Nonoperating investment income	53,203	-	53,203	-	53,203
CVCA funding of GCA operations	(661,426)	661,426	-	-	-
Change in net assets before unrealized losses on swap	(470,662)	(246,454)	(717,116)	-	(717,116)
Unrealized losses on swap	-	395,818	395,818	-	395,818
Change in net assets	(470,662)	(642,272)	(1,112,934)	-	(1,112,934)
Net assets, beginning of year	36,730,734	28,931,155	65,661,889	(13,239,278)	52,422,611
Net assets, end of year	$ 36,260,072	$ 28,288,883	$ 64,548,955	$ (13,239,278)	$ 51,309,677