GALLO CENTER
FOR THE ARTS

September 15, 2014

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

RE: Audited Year End Financials for Y/E 6/30/14

Ladies and Gentlemen:

Enclosed is a copy of the fiscal year ending June 30, 2014 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, 2014.

Sincerely,

Bryan Branco
Director of Finance

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2014

CONTENTS

BOWMAN

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Central Valley Center for the Arts, Inc. and Subsidiaries
(A Nonprofit Corporation)
Modesto, California

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Central Valley Center for the Arts, Inc. and Subsidiaries (the Center) which comprise of the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Bowman & Company, LLP

Established 1949
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CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(A Nonprofit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014
With Comparative Totals for 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 2,053,135	$ 2,086,621
Cash held in trust for resident companies	110,526	64,475
Receivables		
Contributions, current portion	965,462	1,130,025
Other	12,015	4,655
Prepaid expenses and other assets	275,188	262,166
Total current assets	3,416,326	3,547,942
NONCURRENT ASSETS		
Investments	7,280,099	5,647,488
Contributions receivable, net of current portion	314,978	854,282
Bond issuance costs, net	211,377	222,125
Property and equipment, net	39,106,797	39,847,799
Endowment funds	19,489,954	17,528,660
Total noncurrent assets	66,403,205	64,100,354
Total assets	$ 69,819,531	$ 67,648,296
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 495,185	$ 463,566
Due to resident companies	110,526	64,475
Deferred revenue	1,820,587	1,557,007
Bonds payable, current portion	350,000	325,000
Total current liabilities	2,776,298	2,410,048
LONG-TERM LIABILITIES		
Fair value of interest rate swap	1,242,892	1,218,122
Bonds payable, net of current portion	11,675,000	12,025,000
Total long-term liabilities	12,917,892	13,243,122
Total liabilities	15,694,190	15,653,170
NET ASSETS		
Unrestricted–undesignated	16,348,376	15,555,593
Unrestricted–board designated	1,229,186	1,220,939
Total unrestricted	17,577,562	16,776,532
Temporarily restricted	20,550,428	19,631,610
Permanently restricted	15,997,351	15,586,984
Total net assets	54,125,341	51,995,126
Total liabilities and net assets	$ 69,819,531	$ 67,648,296

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

(A Nonprofit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2014
With comparative totals for 2013

	2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2013
OPERATING REVENUES					
Ticket sales	$ 4,576,750	$ - -	$ - -	$ 4,576,750	$ 3,929,296
Facility use income	528,566	- -	- -	528,566	566,709
Operating investment income	634,251	- -	- -	634,251	430,429
Other income	1,151,563	- -	- -	1,151,563	1,231,826
Total operating revenues	6,891,130	- -	- -	6,891,130	6,158,260
OPERATING EXPENSES					
Program	7,609,703	- -	- -	7,609,703	7,512,488
General and administrative	636,669	- -	- -	636,669	641,977
Total operating expenses	8,246,372	- -	- -	8,246,372	8,154,465
Operating loss before contribution income	(1,355,242)	- -	- -	(1,355,242)	(1,996,205)
CONTRIBUTION INCOME					
Contributions	1,271,821	625,863	136,195	2,033,879	2,089,922
In-kind donations	49,417	73,900	- -	123,317	267,369
Net assets released from restrictions - operating	1,333,935	(1,333,935)	- -	- -	- -
Total contribution income	2,655,173	(634,172)	136,195	2,157,196	2,357,291
Less: fund-raising expenses	(473,060)	- -	- -	(473,060)	(490,994)
Change in uncollectible promise to give	(1,071)	(647)	- -	(1,718)	7,141
Net contribution income	2,181,042	(634,819)	136,195	1,682,418	1,873,438
Operating income (loss)	825,800	(634,819)	136,195	327,176	(122,767)
NONOPERATING INCOME					
Nonoperating investment income	- -	1,553,637	274,172	1,827,809	838,875
Change in net assets before unrealized gain (loss) on swap	825,800	918,818	410,367	2,154,985	716,108
Unrealized gain (loss) on swap	(24,770)	- -	- -	(24,770)	411,525
Change in net assets	801,030	918,818	410,367	2,130,215	1,127,633
Net assets, beginning of year	16,776,532	19,631,610	15,586,984	51,995,126	50,867,493
Net assets, end of year	$17,577,562	$20,550,428	$15,997,351	$54,125,341	$51,995,126

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2014
With comparative totals for 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 2,130,215	$ 1,127,633
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(136,195)	-
Investment income restricted for long-term purposes	(284,466)	(125,831)
Net realized and unrealized gains and losses on investments	(2,408,395)	(1,269,304)
In-kind donations	(123,317)	(272,880)
Depreciation and amortization	953,692	953,297
Change in discount on contributions receivable	(16,910)	(12,125)
Unrealized (gain) loss on interest rate swap	24,770	(411,525)
Amortization of bond issuance costs	10,748	10,748
Bad debt provision	1,718	(7,141)
Loss on disposal of assets	7,117	- -
Changes in assets and liabilities		
Decrease (increase) in:		
Contributions receivable	518,126	169,092
Other receivables	(7,360)	(424)
Prepaid expenses and other assets	(13,022)	10,200
Increase in:		
Accounts payable and accrued expenses	31,619	110,487
Deferred revenue	263,580	395,570
Net cash provided by operating activities	951,920	677,797
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	7,963,299	26,985,789
Endowment appropriated for expenditure	71,338	29,647
Purchases of property and equipment	(219,807)	(18,994)
Purchase of investments	(9,220,147)	(27,983,748)
Net cash used in investing activities	(1,405,317)	(987,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes	460,445	361,273
Investment income restricted for long-term purposes	284,466	125,831
Principal payments on bonds	(325,000)	(300,000)
Net cash provided by financing activities	419,911	187,104
Net decrease in cash and cash equivalents	(33,486)	(122,405)
CASH AND CASH EQUIVALENTS, beginning of year	2,086,621	2,209,026
CASH AND CASH EQUIVALENTS, end of year	$ 2,053,135	$ 2,086,621
Supplemental cash flow information		
Interest paid	$ 320,474	$ 329,848
Taxes paid	$ 24,539	$ 18,746
Noncash investing and financing activities		
In-kind property and equipment donations	$ - -	$ 157,500

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Organizations and Significant Accounting Policies

Nature of Organizations

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 to provide financial support for the operation of a regional arts center (the Performing Arts Center) in Stanislaus County (the County).

Gallo Center for the Arts, Inc. (a nonprofit California corporation) (GCA, Inc.) is 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 is 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.

Gallo Center for the Arts, LLC (a single member California Limited Liability Company) (GCA, LLC), was established by Central Valley Center for the Arts, Inc. to operate the concession operations of the Performing Arts Center.

The accompanying consolidated financial statements include the accounts of CVCA; GCA, LLC; and GCA, Inc. (together, the Center). All intercompany accounts and transactions have been eliminated.

Nature of Activities

The following expense categories are included in the accompanying consolidated 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 to school-aged youth.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Nature of Activities (Cont.)

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.

Fundraising:

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.

The Centers' significant accounting policies are as follows:

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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

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.

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.

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 operating investments are reported as increases or decreases in unrestricted net assets. Gains or losses on endowment 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. Additionally, cash held in trust for resident companies is excluded from cash and cash equivalents and presented separately in the consolidated statement of financial position.

Marketable Securities:

The Center reports its investments in all debt securities and in equity securities with readily determinable market values at fair value, using quoted market prices. Investment income from permanently restricted investments is reported as temporarily restricted income unless permanently restricted by the donor. Unrealized and realized gains or losses have been recorded as operating and nonoperating investment income on the consolidated statement of activities.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Contributions Receivable:

Contributions receivable consist of pledges that are primarily from residents and businesses located in California's Central Valley.

Payments of these pledges have been promised over a period of generally one to four years and have been discounted to net present value using U.S. Treasury rates at the time the pledge was made ranging from .37% to 1.23% 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, 2014, the Center accreted $16,910 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 unpaid IT services that have been provided to nonprofit resident companies, unpaid facility use fees, and insurance reimbursments.

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. Funds held by the County on behalf of the Center for construction of the Performing Arts Center were capitalized when deposited.

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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

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, 2014, the Center amortized $10,748 of bond issuance costs.

Fair Value Measurements:

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.

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 9) 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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

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. 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, 2014.

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 domestic and international equity and fixed income mutual funds. 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, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. 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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Endowments (Cont.):

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 proceeding the fiscal year in which the distribution is planned.

In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects the spending policy to allow its endowment to grow at an average of 2% annually, net of appropriations.

Investment Policy, Strategies, and Objectives

The Center has adopted investment and spending policies for endowment assets, however, currently substantially all endowment assets are used as collateral for the bonds payable (see Note 9). To satisfy its rate or return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In the long term, once the bonds are paid off, the Center will target a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long term return objectives within prudent risk constraints.

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, 2014.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Interest Rate Swap:

The Center uses two interest rate swaps to effectively manage the interest rate exposure on the variable rate demand revenue bonds. (see Note 9). The interest rate swaps are 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 consolidated 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.

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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Contribution Income (Cont.):

Amounts received under conditional pledges are recorded as advances from donors until underlying conditions have been met. As of June 30, 2014, there were no conditional pledges outstanding.

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 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 supplies, professional services, and accommodations during the year ended June 30, 2014 in the amount of $123,317, which have been recorded as in-kind donations and assets or expenses. The amount of in-kind expense during the year ended June 30, 2014 totaled $169,874 which include temporarily restricted in-kind donations released from restriction.

Advertising:

Advertising costs are charged to expense as incurred. Advertising expenses for the year ended June 30, 2014 were $433,246.

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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Measure of Operations:

The Center's measure of operations is its operating 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 contributions, 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 and GCA, Inc. are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, CVCA and GCA, Inc. qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than private foundations under Section 509(a)(2).

GCA, LLC is a single member of 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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Cont.)

Income Tax Status (Cont.):

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. Income derived from computer support services provided to nonprofit resident companies and certain facility use income is considered unrelated business income. Since related expenses exceeded the income, no provision for income taxes has been accrued.

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. The Center's Forms 990, *Return of Organization Exempt from Income Tax*, and Forms 990-T, *Exempt Organization Business Income Tax Returns* for 2013, 2012, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

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 Center's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements in order to conform to the current year presentation.

Subsequent Events:

The Center evaluated subsequent events for recognition and disclosure through September 15, 2014, the date which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Investments

The composition of investments as of June 30, 2014 is as follows:

	Assets at Fair Value as of June 30			
	Level 1	Level 2	Level 3	Total
Domestic equity mutual funds	$ 9,959,400	$ -	$ -	$ 9,959,400
International equity mutual funds	3,503,618	-	-	3,503,618
Fixed income mutual funds	10,508,622	-	-	10,508,622
Corporate Bonds	2,607,527			2,607,527
Money market	190,886	-	-	190,886
Total	$26,770,053	$ -	$ -	$26,770,053

Investment income for the year ended June 30, 2014 is summarized as follows:

Interest and dividend income	$ 544,043
Unrealized Gain	2,007,441
Fees paid to managers	(89,424)
Total	$ 2,462,060

Note 3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2014:

Receivable in fiscal year ending June 30:	
Due in less than one year	$ 1,046,986
Due in one to five years	327,250
	1,374,236
Less: allowance for uncollectible contributions receivable	(81,524)
Less: unamortized discount	(12,272)
Total	$ 1,280,440

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Endowment Funds

The Center has four permanently restricted endowment funds. Three of 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. Earnings for endowment agreements that are silent on investment income are treated as unrestricted investment earnings. The endowment funds serve as collateral for the letter of credit financing (see Note 9). 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	$ --	$ 3,103,492	$ 15,997,351	$ 19,100,843
Board-designated endowment funds	389,111	--	--	389,111
Total funds	$ 389,111	$ 3,103,492	$ 15,997,351	$ 19,489,954

Changes in endowment net assets as of June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 391,821	$ 1,549,855	$ 15,586,984	$ 17,528,660
Investment income	--	1,553,637	274,172	1,827,809
Contributions	--	--	136,195	136,195
Amounts appropriated for expenditure	(2,710)	--	--	(2,710)
Endowment net assets, end of year	$ 389,111	$ 3,103,492	$ 15,997,351	$ 19,489,954

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2014:

Capital lease–Performing Arts Center	$ 45,484,629
Computer equipment and software	383,726
Furniture and equipment	225,604
	46,093,959
Less: accumulated depreciation	(6,987,162)
Total	$ 39,106,797

Depreciation and amortization expense for the year ended June 30, 2014 was $953,692.

Note 6. Net Assets

The Center's Board of Directors has chosen to place the following limitations on unrestricted net assets as of June 30, 2014:

Undesignated	$ 16,348,376
Designated for repairs and maintenance	840,075
Designated for endowment	320,483
Total unrestricted net assets	$ 17,508,934

Temporarily restricted net assets as of June 30, 2014 are available for the following purposes or periods:

Use of Performing Arts Center	$ 15,842,776
Underprivileged children	720,546
Other time restrictions	786,361
Endowment time restrictions	3,161,826
Arts education transportation	45,253
Arts education for children	52,000
Total temporarily restricted net assets	$ 20,608,762

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Net Assets (Cont.)

Temporarily restricted net assets released during the year ended June 30, 2014 were as follows:

Arts education and underpriveleged youth	$ 337,997
Performances	330,988
Other Time Restrictions	448,667
Use of Performing Arts Center	216,283
Total temporarily restricted net assets released	$ 1,333,935

Note 7. 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, 2014, 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 investments is based on current market rates. 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.

Note 8. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Construction of Performing Arts Center (Cont.)

Under the terms of an operating agreement with the County, the Center has the right to operate the Performing Arts Center for an initial 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 is 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, 2014, the total costs capitalized to property and equipment related to the Center's portion of the Performing Arts Center construction were $28,181,956, 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 $45,484,629.

Note 9. 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.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Bonds Payable (Cont.)

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, 2014 averaged 0.07%.

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, 2014, the underlying value of the swap was an unrealized loss of $1,066,406, which the Center has recorded as a liability.

In July 2013, the Center entered into a separate forward starting interest rate swap with a national bank to manage the interest rate exposure on the variable rate demand revenue bonds. The Center has agreed to make 2.91% fixed rate payments and receive floating payments derived from the US Dollar Libor rate on a notional amount of $6 million beginning in March 2019 which decreases every year until expiration in March 2029. At June 30, 2014, the underlying value of the swap was an unrealized loss of $176,486, 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, 2014, approximated $20,000. 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 2015. The Center has been in renegotiations with the bank to renew the LOC through March 2018.

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 $320,000, including certain fees, for the year ended June 30, 2014.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Bonds Payable (Cont.)

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

Year ending June 30:		
2015	$	350,000
2016		375,000
2017		400,000
2018		425,000
2019		450,000
Thereafter		10,025,000
	$	12,025,000

Note 10. Employee Benefit Plan

During the year ended June 30, 2014, 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, 2014 totaled $52,727.

Note 11. Related Party Transactions

During 2014, contributions from the Board of Directors totaled $415,203. Undiscounted contributions receivable from such related parties were $371,283 at June 30, 2014.

Note 12. 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 marketable securities. The Center maintains cash, cash equivalents, and marketable securities with three major financial institutions. As of June 30, 2014, Center had $1,666,699 in excess of the federal depository insurance limit of $250,000.

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Concentrations of Credit Risk (Cont.)

Contributions Receivable:

Approximately 69% of contributions receivable were due from three donors as of June 30, 2014.

Contributions:

During the year ended June 30, 2014, one donor accounted for approximately 13% of total contributions.

SUPPLEMENTAL SCHEDULES

CENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES
(A Nonprofit Corporation)
SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS	CVCA	GCA, LLC	GCA, Inc	Total	Eliminations Increase (Decrease)	Consolidated
CURRENT ASSETS						
Cash and cash equivalents	$ 142,084	$ 101,678	$ 1,809,373	$ 2,053,135	$ --	$ 2,053,135
Cash held in trust for resident companies	--	--	110,526	110,526	--	110,526
Receivables						
Contributions, current portion	300,305	1,632	663,525	965,462	--	965,462
Other	--	--	12,015	12,015	--	12,015
Prepaid expenses and other assets	3,304	11,247	263,941	278,492	(3,304)	275,188
Total current assets	445,693	114,557	2,859,380	3,419,630	(3,304)	3,416,326
NONCURRENT ASSETS						
Investments	7,280,099	--	--	7,280,099	--	7,280,099
Contributions receivable, net of current portion	100,024	--	214,954	314,978	--	314,978
Bond issuance costs, net	--	--	211,377	211,377	--	211,377
Property and equipment, net	--		39,106,797	39,106,797	--	39,106,797
Endowment funds	19,489,954	--	--	19,489,954	--	19,489,954
Investment in GCA	13,239,278	--	--	13,239,278	(13,239,278)	--
Total noncurrent assets	40,109,355	--	39,533,128	79,642,483	(13,239,278)	66,403,205
Total assets	$ 40,555,048	$ 114,557	$ 42,392,508	$ 83,062,113	$ (13,242,582)	$ 69,819,531
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	$ 23,330	$ 4,703	$ 470,456	$ 498,489	$ (3,304)	$ 495,185
Due to resident companies	--	--	110,526	110,526	--	110,526
Deferred revenue	--	--	1,820,587	1,820,587	--	1,820,587
Current portion of bonds payable	--	--	350,000	350,000	--	350,000
Total current liabilities	23,330	4,703	2,751,569	2,779,602	(3,304)	2,776,298
LONG-TERM LIABILITIES						
Fair value of interest rate swap	--	--	1,242,892	1,242,892	--	1,242,892
Bonds payable, net of current portion	--	--	11,675,000	11,675,000	--	11,675,000
Total long-term liabilities	--	--	12,917,892	12,917,892	--	12,917,892
Total liabilities	23,330	4,703	15,669,461	15,697,494	(3,304)	15,694,190
NET ASSETS						
Unrestricted–undesignated	21,001,076	109,854	(4,762,554)	16,348,376	--	16,348,376
Unrestricted–board designated	389,111	--	840,075	1,229,186	--	1,229,186
Total unrestricted	21,390,187	109,854	(3,922,479)	17,577,562	--	17,577,562
Temporarily restricted	3,144,180	--	30,645,526	33,789,706	(13,239,278)	20,550,428
Permanently restricted	15,997,351	--	--	15,997,351	--	15,997,351
Total net assets	40,531,718	109,854	26,723,047	67,364,619	(13,239,278)	54,125,341
Total liabilities and net assets	$ 40,555,048	$ 114,557	$ 42,392,508	$ 83,062,113	$ (13,242,582)	$ 69,819,531

ÇENTRAL VALLEY CENTER FOR THE ARTS, INC. AND SUBSIDIARIES

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

For the Year Ended June 30, 2014

	CVCA	GCA, LLC	GCA, Inc.	Total	Eliminations Increase (Decrease)	Consolidated
OPERATING REVENUES						
Ticket sales	$ --	$ --	$ 4,576,750	$ 4,576,750	$ --	$ 4,576,750
Facility use income		1,300	527,266	528,566	--	528,566
Operating investment income	634,251	--	--	634,251		634,251
Other income	--	310,345	841,218	1,151,563	--	1,151,563
Total operating revenues	634,251	311,645	5,945,234	6,891,130	--	6,891,130
OPERATING EXPENSES						
Program	--	160,356	7,449,347	7,609,703	--	7,609,703
General and administrative	6,146	--	630,523	636,669	--	636,669
Total operating expenses	6,146	160,356	8,079,870	8,246,372	--	8,246,372
Operating income (loss) before contribution income	628,105	151,289	(2,134,636)	(1,355,242)	--	(1,355,242)
CONTRIBUTION INCOME						
Contributions	148,830		1,885,049	2,033,879	--	2,033,879
In-kind donations	--	--	123,317	123,317		123,317
Net assets released from restrictions–operating	--	--	--	--	--	--
Total contribution income	148,830	--	2,008,366	2,157,196		2,157,196
Less: fund-raising expenses	--	--	(473,060)	(473,060)	--	(473,060)
Change in uncollectible promise to give	5,990	--	(7,708)	(1,718)		(1,718)
Net contribution income	154,820	--	1,527,598	1,682,418	--	1,682,418
Operating income (loss)	782,925	151,289	(607,038)	327,176	--	327,176
NONOPERATING INVESTMENT INCOME						
Nonoperating investment income	1,827,809	--	--	1,827,809		1,827,809
CVCA funding of GCA operations	520,000	(110,000)	(410,000)	--	--	--
Change in net assets before unrealized loss on swap	3,130,734	41,289	(1,017,038)	2,154,985	--	2,154,985
Unrealized loss on swap	--	--	(24,770)	(24,770)	--	(24,770)
Change in net assets	3,130,734	41,289	(1,041,808)	2,130,215	--	2,130,215
Net assets, beginning of year	37,400,980	68,565	27,764,859	65,234,404	(13,239,278)	51,995,126
Net assets, end of year	$40,531,714	$ 109,854	$26,723,051	$67,364,619	$ (13,239,278)	$ 54,125,341