

SAN JOSE CHILDREN'S MUSICAL THEATER

AUDITED FINANCIAL STATEMENTS

AUGUST 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Jose Children's Musical Theater:

We have audited the accompanying statement of financial position of San Jose Children's Musical Theater, (a nonprofit organization) as of August 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements and, in our report dated March 7, 2008, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Children's Musical Theater as of August 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2009, on our consideration of San Jose Children's Musical Theater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Pleasanton, California
April 16, 2009

San Jose Children's Musical Theater
Statement of Financial Position
August 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2008</u>	<u>Summarized 2007</u>
ASSETS				
Cash and cash equivalents	\$33,895	\$24,751	\$58,646	\$211,073
Grants and awards receivable	62,163	181,568	243,731	264,442
Pledges receivable, net	2,125	25,000	27,125	
Accounts receivable	83,171		83,171	12,138
Prepaid expenses	31,237		31,237	7,811
	<hr/>			
TOTAL CURRENT ASSETS	212,591	231,319	443,910	495,464
	<hr/>			
Pledges receivable, long term		75,000	75,000	17,143
Deposits	23,027		23,027	3,502
Property and equipment, net	203,495		203,495	186,914
	<hr/>			
TOTAL ASSETS	<u>\$439,113</u>	<u>\$306,319</u>	<u>\$745,432</u>	<u>\$703,023</u>
LIABILITIES				
Accounts payable	\$124,501		\$124,501	\$32,900
Deferred revenue	65,289		65,289	77,670
Accrued compensation	16,631		16,631	7,209
Capital leases payable	4,448		4,448	10,610
	<hr/>			
TOTAL CURRENT LIABILITIES	210,869		210,869	128,389
NET ASSETS				
Unrestricted	228,244		228,244	303,989
Temporarily restricted		\$306,319	306,319	270,645
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TOTAL NET ASSETS	228,244	306,319	534,563	574,634
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TOTAL LIABILITIES & NET ASSETS	<u>\$439,113</u>	<u>\$306,319</u>	<u>\$745,432</u>	<u>\$703,023</u>

The accompanying notes are an integral part of this financial statement.

San Jose Children's Musical Theater
Statement of Activities
For the year ended August 31, 2008

	Unrestricted	Temporarily Restricted	Total 2008	Summarized 2007
Operating revenue				
Grants and awards	\$288,632	\$377,728	\$666,360	\$591,869
Donations	91,344	209,200	300,544	131,254
In-kind donations	41,919		41,919	66,058
Admissions	613,250		613,250	612,520
Program fees	464,689		464,689	466,677
Concession & show sales	79,035		79,035	109,123
Cost of goods sold	(47,871)		(47,871)	(62,162)
Special events	228,435		228,435	138,252
Direct expense of special events	(62,397)		(62,397)	(16,403)
Set rental income	31,400		31,400	
Program brochure advertising	9,877		9,877	3,638
Program brochure parent messages	7,629		7,629	4,418
Loss on asset disposal				(8,240)
Interest income	1,739		1,739	185
Total operating revenue	<u>1,747,681</u>	<u>586,928</u>	<u>2,334,609</u>	<u>2,037,189</u>
Net assets released from restrictions	<u>551,254</u>	<u>(551,254)</u>		
Expenses				
Program services				
Outreach	378,785		378,785	247,787
Production	1,379,789		1,379,789	1,329,222
Supporting services				
Management and general	457,894		457,894	274,495
Fundraising	158,212		158,212	180,053
Total expenses	<u>2,374,681</u>		<u>2,374,681</u>	<u>2,031,557</u>
Changes in net assets	<u>(75,746)</u>	<u>35,674</u>	<u>(40,072)</u>	<u>5,632</u>
Net assets at beginning of year	<u>303,989</u>	<u>270,645</u>	<u>574,634</u>	<u>569,002</u>
Net assets at end of year	<u>\$228,244</u>	<u>\$306,319</u>	<u>\$534,563</u>	<u>\$574,634</u>

The accompanying notes are an integral part of this financial statement.

San Jose Children's Musical Theater
Statement of Functional Expenses
For the year ended August 31, 2008

	Program Services			Supporting Services			Total	Summarized
	Outreach	Production	Total Program	Management & General	Fund - Raising	Total Support	2008	2007
Salaries	\$192,203	\$491,523	\$683,726	\$173,558	\$88,521	\$262,079	\$945,806	\$776,703
Payroll taxes	4,307	42,829	47,136	15,972	5,362	21,334	68,470	73,107
Fringe benefits	2,365	37,362	39,727	44,886	7,025	51,911	91,638	39,786
Total salaries	198,875	571,715	770,590	234,415	100,909	335,324	1,105,914	889,595
Advertising	63,528	30,705	94,233	99	537	636	94,869	123,966
Bad debts				5,163		5,163	5,163	
Conferences & meetings		121	121	1,473	2,447	3,920	4,041	900
Costumes	287	42,863	43,150				43,150	59,962
Dues, fees & other charges	806	69,631	70,438	32,604	2,695	35,299	105,737	15,988
Equipment lease / purchase	16,789	38,595	55,384	13,345		13,345	68,729	33,268
Insurance	1,220	5,084	6,304	2,469	751	3,220	9,524	8,293
Interest expense				1,406		1,406	1,406	4,993
Lighting & sound	2,075	13,867	15,942				15,942	14,895
Maintenance & repair	27	1,743	1,770	2,157		2,157	3,927	16,032
Outside services	24,048	138,451	162,499	92,357	15,956	108,313	270,812	227,395
Postage	2,071	3,324	5,395	5,742	2,986	8,728	14,123	15,739
Printing & programs	8,651	41,673	50,324	1,461	5,472	6,933	57,257	62,010
Program expenses	24,496		24,496				24,496	
Props and sets	12,033	116,453	128,486				128,486	167,753
Rent	3,850	119,853	123,703	22,356	2,981	25,337	149,040	153,153
Royalties		109,182	109,182				109,182	90,820
Scripts & scores		1,284	1,284				1,284	2,554
Supplies	12,065	22,886	34,950	22,367	19,324	41,691	76,641	56,986
Telephone	404	1,392	1,797	5,040	124	5,164	6,960	6,407
Travel & entertainment	788	24,636	25,424	5,132	144	5,276	30,700	32,882
Utilities	455		455	3,373		3,373	3,828	3,702
Subtotal before depreciation	372,467	1,353,460	1,725,927	450,960	154,324	605,284	2,331,211	1,987,296
Depreciation	6,318	26,330	32,648	6,934	3,888	10,822	43,470	44,261
Total expenses	\$378,785	\$1,379,789	\$1,758,575	\$457,894	\$158,212	\$616,106	\$2,374,681	\$2,031,557

The accompanying notes are an integral part of this financial statement.

San Jose Children's Musical Theater
Statement of Cash Flows
For the year ended August 31, 2008

	<u>Total</u> 2008	<u>Summarized</u> 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	(\$40,072)	\$5,632
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	43,470	44,261
(Increase) decrease in operating assets		
Grants and awards receivable	20,711	(66,112)
Pledges receivable	(84,982)	
Other receivables	(71,033)	39,187
Prepaid expenses & deposits	(42,951)	22,706
Increase (decrease) in operating liabilities		
Accounts payable	91,601	17,142
Deferred revenue	(12,381)	13,532
Accrued compensation	9,422	(9,217)
Contributions restricted for long term purposes		92,857
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES	<u>(86,215)</u>	<u>159,988</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital equipment, net of disposals	<u>(60,051)</u>	<u>(38,948)</u>
NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES	<u>(60,051)</u>	<u>(38,948)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle payments on capital leases	<u>(6,162)</u>	<u>(5,552)</u>
NET CASH PROVIDED / (USED) BY FINANCING ACTIVITIES	<u>(6,162)</u>	<u>(5,552)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(152,428)</u>	<u>115,488</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>211,073</u>	<u>95,585</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$58,646</u>	<u>\$211,073</u>
 Supplemental Disclosures:		
Interest Paid	\$1,406	\$4,993

The accompanying notes are an integral part of this financial statement.

SAN JOSE CHILDREN'S MUSICAL THEATER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2008

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

San Jose Children's Musical Theater (Organization) is a nonprofit art, education, and cultural 501(c)(3) organization incorporated in the state of California in 1972. San Jose Children's Musical Theater is dedicated to the development of youth through performing arts skills using the mediums of musical theater production, performing arts classes, community outreach, and other related activities.

Programs

Theatrical Production – providing quality, professional musical theater entertainment for performers and audiences. Outreach – providing year-round arts education classes.

Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The Organization prepares its financial statements in accordance with accounting standards of nonprofit Organizations.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Temporary restricted net assets include those subject to a donor restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those subject to a non-expiring donor restriction. During this reporting period the Organization did not have any permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within (90) days of purchase.

Pledges

Pledges are unconditional promises to give and are recognized as revenue upon notification. Pledges are recorded at their net realizable value if collectable within one year and at their fair value if collectable after one year.

Allowance for Doubtful Accounts

The Organization maintains an allowance on pledges receivable equal to the actual amount determined uncollectable or \$500, whichever is more.

SAN JOSE CHILDREN'S MUSICAL THEATER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2008

Revenue recognition

Grant revenue and contributions are recognized when the revenue is awarded or pledged. Program revenue is recognized in the period in which the service is provided.

Contributions

The Organization accounts for contributions received and contributions made in accordance with accounting standards for nonprofit organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and, or nature of any donor restrictions. Restricted contributions are reported as an increase in temporarily or permanently restricted net assets. When the restriction is met, the amount is shown as a reclassification from restricted net assets to unrestricted net assets.

Contributed Goods and Services

Contributions in-kind are recognized as follows: Donated goods are recorded at estimated fair market value at the date of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at estimated fair market value at the time the services are rendered. Donated services that do not require specific expertise but which are nonetheless central to the Organization's operations are disclosed in the footnotes to the financial statements.

Fixed Assets

Furniture, equipment, sets and props with a value over \$500 are capitalized at cost when purchased, or at their estimated fair market value if donated. Depreciation is computed using the straight-line method over the asset's estimated useful life, which ranges from five to ten years.

Functional Allocation of Expenses

The costs of operating the Organization's program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates of time worked in each program.

Advertising

Advertising costs are expensed as incurred.

Income Tax Status

The organization is exempt from federal and state income taxes under Section 501(c)3 of the internal revenue code and similar state provisions. Accordingly, income taxes are not provided for in the financial statements. The Organization is not classified as a private foundation.

Comparative Financial Information

The 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 Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2007, from which the summarized information was obtained.

Deferred Revenue

Income from program revenue is deferred and recognized over the period to which the fees relate.

SAN JOSE CHILDREN'S MUSICAL THEATER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2008

NOTE B – GRANTS AND AWARDS RECEIVABLE

Grants and awards receivable at August 31, 2008 are as follows:

Receivable unrestricted	\$62,163
Receivable temporarily restricted	<u>\$181,568</u>
Total grants & awards receivable	<u><u>\$243,731</u></u>

The balance includes a concentration from the City of San Jose of \$198,733, or 82%. Also, approximately 42% of the grants awarded during the year ended August 31, 2008 were from the City of San Jose.

NOTE C – PLEDGES RECEIVABLE

Pledges receivable at August 31, 2008 are as follows:

Pledges receivable, current	\$27,625
Pledges receivable, long term	\$75,000
Allowance for doubtful accounts	<u>(\$500)</u>
Net pledges receivable	<u><u>\$102,125</u></u>

The balance includes a concentration from Brandenburg, Staedler & Moore of \$100,000, or 97%.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable at August 31, 2008 are as follows:

Costume rentals	\$5,386
Vendor credit memos & other	\$1,177
Outreach program fees	<u>\$76,608</u>
Total accounts receivable	<u><u>\$83,171</u></u>

The balance includes a concentration from Foothill College of \$54,608, or 66%, and from Willow Glen High School of \$22,000, or 26%.

NOTE E - FIXED ASSETS

Fixed assets and related accumulated depreciation at August 31, 2008 consist of the following:

Equipment	\$135,591
Computers & Software	\$53,914
Props, Sets & Costumes	<u>\$339,149</u>
Total	\$528,654
Accumulated depreciation	<u>(\$325,159)</u>
Net book value	<u><u>\$203,495</u></u>

NOTE F - LEASE COMMITMENTS

The Organization leases five computers, under three separate lease agreements, with effective interest rates ranging from 16% to 28%, that expire in varying years through 2009. Future minimum lease payments are as follows: \$4,448 for the year ending August 31, 2009. The amount of the computers capitalized under these leases are \$26,298 and the related accumulated depreciation is \$18,746, at August 31, 2008. Operating leases: The Organization leases office space on a month-to-month cancelable lease basis.

SAN JOSE CHILDREN'S MUSICAL THEATER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2008

NOTE G - CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Organization are subject to the funding agencies' criteria under which expenditures may be claimed and are subject to audit under such criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to reductions of future funding. Management does not anticipate any questioned costs for the contracts administered during the period.

NOTE H – DEFERRED REVENUE

The Organization's deferred revenue, \$65,289, consist of advance ticket sales received for performances scheduled in the following fiscal year.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

For the year ended August 31, 2008 the Organization's temporary restricted net asset activity consists of:

<u>Purpose / Time Description</u>	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Tools		\$26,200	(\$21,449)	\$4,751
Administrative		\$9,000	(\$9,000)	
Development		\$40,000	(\$40,000)	
Outreach		\$99,160	(\$99,160)	
Production	\$40,000	\$111,000	(\$151,000)	
Time Restricted	\$230,645	\$301,568	(\$230,645)	\$301,568
Total	\$270,645	\$586,928	(\$551,254)	\$306,319

NOTE J - CONTRIBUTIONS IN-KIND

For the year ended August 31, 2008, the Organization recognized the following in-kind donations:

Promotional Services	\$34,050
Supplies	\$7,869
Total	\$41,919

NOTE K – SPECIAL EVENTS

For the year ended August 31, 2008, the Organization participated in the following special event, Gala:

Auction Sales	\$42,800
Ticket Sales	\$89,220
Donations	\$96,415
Total Gross Proceeds	\$228,435
Less: Donations	(\$96,415)
Less: Ticket sales above meal cost	(\$69,109)
Revenue considered donations	(\$165,524)
Subtotal Proceeds	\$62,911
Less: Event Expense	(\$62,397)
Total Net Proceeds	\$514

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

To the Board of Directors of
San Jose Children's Musical Theater

We have audited the financial statements of San Jose Children's Musical Theater (a nonprofit organization) as of and for the year ended August 31, 2008, and have issued our report thereon dated April 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered San Jose Children's Musical Theater's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Jose Children's Musical Theater's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Jose Children's Musical Theater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pleasanton, California
April 16, 2009