

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the Years Ended
June 30, 2012 and 2011

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 20
Supplementary Information	
Schedules of Functional Expenses	22 - 23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Yerba Buena Center for the Arts
San Francisco, California

We have audited the accompanying statements of financial position of the Yerba Buena Center for the Arts (a California nonprofit public benefit corporation) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Yerba Buena Center for the Arts's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 the Yerba Buena Center for the Arts as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedules of functional expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Doran & Associates

October 30, 2012

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 3,845,399	\$ 5,468,199
Contributions, grants and contracts receivable, current portion, net of allowance for doubtful accounts of \$12,786 at 2012 and \$22,822 at 2011 (Note 1)	600,889	585,753
Other receivables (Note 1)	142,026	62,152
Prepaid expenses	166,375	195,363
Deposits and other current assets	24,330	47,010
Total current assets	<u>4,779,019</u>	<u>6,358,477</u>
Contributions, grants and contracts receivable, net of current portion and allowances for doubtful accounts and present value discount of \$300,935 at 2011 (Note 1)	<u>-</u>	<u>1,435,428</u>
Long-term investments:		
Cash and cash equivalents (Note 1)	162,239	503,306
Marketable equity securities (Notes 1 and 3)	<u>4,892,240</u>	<u>3,709,171</u>
Total long-term investments	<u>5,054,479</u>	<u>4,212,477</u>
Fixtures and equipment, net of accumulated depreciation of \$1,408,306 at 2012 and \$1,296,896 at 2011 (Notes 1 and 4)	<u>719,340</u>	<u>642,776</u>
Total assets	<u>\$ 10,552,838</u>	<u>\$ 12,649,158</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,770,310	\$ 2,322,702
Deposits and refundable advances (Note 1)	453,848	751,965
Other deferred income	<u>8,506</u>	<u>40,000</u>
Total liabilities	<u>2,232,664</u>	<u>3,114,667</u>
Net assets:		
Unrestricted net assets	4,741,334	3,631,570
Temporarily restricted net assets (Note 6)	1,717,625	4,041,706
Permanently restricted net assets (Note 7)	<u>1,861,215</u>	<u>1,861,215</u>
Total net assets	<u>8,320,174</u>	<u>9,534,491</u>
Total liabilities and net assets	<u>\$ 10,552,838</u>	<u>\$ 12,649,158</u>

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

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, SUPPORT AND TRANSFERS				
Support from City and County of San Francisco (Note 2)	\$ 3,166,350	\$ 166,650	\$ -	\$ 3,333,000
Contributions	403,189	586,100	-	989,289
Box office ticket sales and gallery admissions	235,218	-	-	235,218
Subsidized community programs	1,153,786	-	-	1,153,786
Commercial rentals	2,697,991	-	-	2,697,991
Concession sales	97,361	-	-	97,361
License agreement income (Note 8)	60,890	-	-	60,890
Raffle ticket sales	6,019,150	-	-	6,019,150
Naming revenue	-	80,465	-	80,465
Investment income (endowment) (Notes 3 and 7)	-	(37,737)	-	(37,737)
Investment income (Note 3)	6,999	1,415	-	8,414
Box office service charges	124,256	-	-	124,256
Marketing and advertising sales	19,571	-	-	19,571
Traveling exhibition fees	135,000	-	-	135,000
Other income	7,281	-	-	7,281
Net assets released from restriction (Note 6)	1,699,420	(1,699,420)	-	-
Loss on write-off of long-term pledge receivable (Note 1)	-	(1,421,554)	-	(1,421,554)
Total revenue, support and transfers	<u>15,826,462</u>	<u>(2,324,081)</u>	<u>-</u>	<u>13,502,381</u>
EXPENSES				
Program services:				
Performing arts	1,408,109	-	-	1,408,109
Visual arts	1,950,201	-	-	1,950,201
Film/video	450,273	-	-	450,273
Community engagement	1,098,499	-	-	1,098,499
Subsidized community programs	1,490,775	-	-	1,490,775
Commercial rentals	2,286,480	-	-	2,286,480
Total program services	<u>8,684,337</u>	<u>-</u>	<u>-</u>	<u>8,684,337</u>
Support services:				
General administration & operations	1,012,195	-	-	1,012,195
Fundraising:				
General fundraising	689,846	-	-	689,846
Dream House raffles	4,330,320	-	-	4,330,320
Total supporting services	<u>6,032,361</u>	<u>-</u>	<u>-</u>	<u>6,032,361</u>
Total expenses	<u>14,716,698</u>	<u>-</u>	<u>-</u>	<u>14,716,698</u>
Change in net assets	1,109,764	(2,324,081)	-	(1,214,317)
Net assets, beginning of year	<u>3,631,570</u>	<u>4,041,706</u>	<u>1,861,215</u>	<u>9,534,491</u>
Net assets, end of year	<u>\$ 4,741,334</u>	<u>\$ 1,717,625</u>	<u>\$ 1,861,215</u>	<u>\$ 8,320,174</u>

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

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, SUPPORT AND TRANSFERS				
Support from San Francisco Redevelopment Agency (Note 2)	\$ 3,166,350	\$ 166,650	\$ -	\$ 3,333,000
Contributions	570,145	1,103,890	-	1,674,035
Box office ticket sales and gallery admissions	278,689	-	-	278,689
Subsidized community programs	1,007,541	-	-	1,007,541
Commercial rentals	3,228,814	-	-	3,228,814
License agreement income (Note 8)	29,677	-	-	29,677
Raffle ticket sales	4,650,650	-	-	4,650,650
Naming revenue	-	91,349	-	91,349
Investment income (endowment) (Notes 3 and 7)	108,390	319,434	-	427,824
Investment income (Note 3)	274,220	1,721	-	275,941
Box office service charges	142,342	-	-	142,342
Marketing and advertising sales	27,607	-	-	27,607
Traveling exhibition fees	94,000	-	-	94,000
Other income	113,746	-	-	113,746
Net assets released from restriction (Note 6)	<u>1,665,150</u>	<u>(1,665,150)</u>	<u>-</u>	<u>-</u>
Total revenue, support and transfers	<u>15,357,321</u>	<u>17,894</u>	<u>-</u>	<u>15,375,215</u>
EXPENSES				
Program services:				
Performing arts	1,532,836	-	-	1,532,836
Visual arts	1,941,040	-	-	1,941,040
Film/video	477,442	-	-	477,442
Community engagement	783,121	-	-	783,121
Subsidized community programs	1,247,494	-	-	1,247,494
Commercial rentals	2,497,914	-	-	2,497,914
Total program services	<u>8,479,847</u>	<u>-</u>	<u>-</u>	<u>8,479,847</u>
Support services:				
General administration & operations	1,064,606	-	-	1,064,606
Fundraising:				
General fundraising	738,896	-	-	738,896
Dream House raffle	3,606,340	-	-	3,606,340
Total supporting services	<u>5,409,842</u>	<u>-</u>	<u>-</u>	<u>5,409,842</u>
Total expenses	<u>13,889,689</u>	<u>-</u>	<u>-</u>	<u>13,889,689</u>
Change in net assets	1,467,632	17,894	-	1,485,526
Net assets, beginning of year	<u>2,163,938</u>	<u>4,023,812</u>	<u>1,861,215</u>	<u>8,048,965</u>
Net assets, end of year	<u>\$ 3,631,570</u>	<u>\$ 4,041,706</u>	<u>\$ 1,861,215</u>	<u>\$ 9,534,491</u>

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

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (1,214,317)</u>	<u>\$ 1,485,526</u>
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	241,638	160,322
Loss on disposal of furniture and equipment	50,312	13,309
Loss on write-off of long-term pledge receivable, net of allowances	1,421,554	-
Net realized/unrealized loss (gain) on investments	139,128	(604,631)
Change in allowance for doubtful accounts	(15,697)	4,085
Change in discount on long-term contracts and promises to give	(80,465)	(85,689)
Changes in assets and liabilities:		
Contributions, grants and contracts receivable	94,900	63,794
Other receivables	(79,874)	(30,831)
Accrued interest receivable	(1,585)	(3,114)
Prepaid expenses, deposits and inventory	51,668	(53,046)
Accounts payable, accrued expenses and other deferred income	(583,886)	(486,471)
Refundable advances	<u>(298,117)</u>	<u>159,029</u>
Total adjustments	<u>939,576</u>	<u>(863,243)</u>
Net cash (used) provided by operating activities	<u>(274,741)</u>	<u>622,283</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,850,432)	(911,971)
Proceeds from sales and maturities of investments	529,820	930,497
Increase (decrease) in long-term cash and cash equivalents	341,067	(32,210)
Purchase of fixtures and equipment	<u>(368,514)</u>	<u>(305,678)</u>
Net cash used by investing activities	<u>(1,348,059)</u>	<u>(319,362)</u>
Net (decrease) increase in cash and cash equivalents	(1,622,800)	302,921
Cash and cash equivalents, beginning of year	<u>5,468,199</u>	<u>5,165,278</u>
Cash and cash equivalents, end of year	<u>\$ 3,845,399</u>	<u>\$ 5,468,199</u>

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

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Yerba Buena Center for the Arts (YBCA) is an independent nonprofit arts institution, created and built by the San Francisco Redevelopment Agency (SFRA). Comprising two landmark buildings – the Galleries and Forum, designed by Japanese architect Fumihiko Maki, and the Theater, designed by American architect James Stewart Polshek – YBCA opened in October 1993 and anchors the dynamic Yerba Buena Cultural District in downtown San Francisco.

As a 501(c)(3) nonprofit organization, YBCA is contracted by the SFRA to create and sustain a program of art and artists in a manner that establishes YBCA as a serious cultural institution within a first class, mixed use, downtown urban complex. To that end, YBCA presents contemporary art from the Bay Area and around the world that reflects the profound issues and ideas of our time, expands the boundaries of artistic practice, and celebrates the diversity of human experience and expression. YBCA works continuously to break new ground with its programs in visual art, performance and film/video, and to connect those programs to a broad cross section of the community.

In addition to its funding from the SFRA, YBCA receives support from public and private foundations, corporations and individuals. It also earns revenue through ticket sales, gallery admissions, facilities rental and other revenue generating programs.

YBCA is committed to innovation in its practices, exceptional diversity in the range of art presented and the engagement of audiences with art that speaks to the ideas and issues of the contemporary world. Programs include:

- Performing Arts - Performing Arts programs include contemporary theater, dance, music, and multidisciplinary performances in both the Theatre and the Forum and from local, national and international artists.
- Visual Arts - Visual Arts exhibitions at YBCA focus on contemporary art of all types, also by local, national and international artists.
- Film/Video - Film/Video programs feature contemporary film from around the world and includes both YBCA curated screenings and co-presentations with community partners.
- Community Engagement - Community Engagement programs provide a range of opportunities for patrons to explore contemporary art through public programs and events. It also creates and manages the YBCA youth programs.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Subsidized Community Programs - YBCA makes its facilities available to local and Bay Area nonprofit organizations, providing subsidized rental rates and services.
- Commercial Rental Program - YBCA rents its facilities to commercial entities in order to generate revenue to support its Arts and Community Programs.

Basis of Presentation - The financial statements are presented on the accrual basis of accounting and reflect unrestricted, temporarily restricted, and permanently restricted net assets.

Method of Accounting - To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of YBCA are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net assets that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset group as follows:

Unrestricted net assets - These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from banks less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily restricted net assets - YBCA reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - These stipulate that resources be maintained permanently but permit the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Receivables - Receivables include contributions, grants and contracts receivable, and other receivables. Contributions and grants receivable are recognized when an unconditional promise to give is received. All other receivables are recognized when services are performed or contracts are fulfilled.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for doubtful accounts - Potential bad debt is accounted for by the allowance method based on historical experience and management evaluation of outstanding grants, contributions receivable, and accounts receivable. The allowance for doubtful accounts was \$12,786 as of June 30, 2012 and \$22,822 as of June 30, 2011.

Discount on noncurrent contributions, grants and contracts receivable - Noncurrent receivables are defined as promises to give and contracted obligations to pay YBCA that will not be received by the end of the next fiscal year. Noncurrent receivables are presented net of a discount based on the market conditions and management evaluation of outstanding grants, contributions receivable, and accounts receivable to reflect their present value. The discount for noncurrent receivables was \$300,935 as of June 30, 2011. At June 30, 2012, a long-term pledge was deemed uncollectible, resulting in a write-off of \$1,421,554 at year-end.

Long-Term Investments - Investments are reported at their estimated fair value and consist of corporate bonds, U.S. treasury instruments, equity securities, and international funds, collectively referred to as marketable securities. Investments received by gift are recorded at fair value at the date of the donation. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur.

Fixtures and equipment - Fixtures and equipment purchased are stated principally at cost; assets acquired by contribution or bequest are stated at market value or net book value at the date of acquisition. YBCA capitalizes fixtures and equipment with a cost of \$3,000 or more, and a useful life in excess of one year. Depreciation is recognized using the straight-line method over the useful life of the assets, which range from 3 to 13 years. Maintenance and repairs are charged to expense as incurred.

Revenue recognition - Contributions received are recognized as revenue when received or unconditionally promised. YBCA reports gifts of cash and other assets as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

YBCA recognizes revenue from box office sales, facility rentals, traveling exhibitions, and special events when the event is held. Any advance ticket sales or pre-payments on the rental of the facility are classified as Deposits and Refundable Advances on the Statements of Financial Position and deferred until the completion of the event.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions - During the years ended June 30, 2012 and 2011, the Center recorded various types of in-kind contributions of donated goods and services related to design work, advertising and other items typically used for special events sponsored by YBCA. These items have a fair market value using the market method of \$7,919 and \$151,978, respectively as follows:

Fair Value Measurements at June 30, 2012 , Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Various	\$ -	\$ 7,919	\$ -	\$ 7,919

Fair Value Measurements at June 30, 2011 , Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketing	\$ -	\$ 51,180	\$ -	\$ 51,180
IT	-	63,300	-	63,300
Events	-	37,498	-	37,498
	<u>\$ -</u>	<u>\$ 151,978</u>	<u>\$ -</u>	<u>\$ 151,978</u>

Functional expense allocations - Certain expenses, such as supplies, travel, personnel, and plant maintenance operations, are allocated among program services and supporting services based on allocation methods and estimates made by YBCA's management.

Costs of joint activities - Costs of joint activities that are identifiable with a particular function are charged to that function, and joint costs are allocated between fund-raising and the appropriate program or management and general function. Joint costs were incurred by YBCA for personnel, hosting, and design for YBCA's website and for performance programs and event calendars. Of the total costs incurred of \$181,232 in fiscal year 2011, \$21,823 has been allocated to fundraising, \$158,958 has been allocated to marketing, and \$451 to administration. During the fiscal year 2012 the performance programs and event calendars were discontinued; as a result, the amounts allocated for joint activities were de minimis.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax status - YBCA is a nonprofit organization exempt from income tax under section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California. In addition, YBCA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Center to report information regarding its exposure to various tax positions taken by the Center. The Center has determined whether any tax positions have met the recognition threshold and have measured the Center's exposure to those tax positions. Management believes that the Center has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Center would be recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Subsequent Events - Subsequent events have been evaluated through October 30, 2012, which is the date the financial statements were available to be issued.

Reclassifications - Certain balances at, and for the year ended June 30, 2011, were reclassified to conform with June 30, 2012, balances.

NOTE 2 OPERATING AGREEMENT

In 1990 YBCA entered into an Operating Agreement (Agreement) with the San Francisco Redevelopment Agency (the SFRA) for an initial term of 15 years. In June 2004, YBCA and the SFRA entered into an agreement to provide for an extended term of fifteen years as well as the possibility of additional extensions through June 30, 2094. With the June 2004 agreement, a funding level of \$3,555,000 for administrative and operational expenses was established. This funding level remains constant throughout the term of the agreement, except as adjusted by the SFRA from time to time as a result of a consultation process defined in the agreement. In February 2012 the SFRA Agreement was assigned to the City and County of San Francisco (the City). For the years ended June 30, 2012 and 2011, the funding level was reduced \$222,000 to \$3,333,000. The City has informed YBCA that funding will be \$3,333,000 for the fiscal year ending June 30, 2013.

YBCA's facilities are owned by the City (formerly SFRA) and were financed from the sale of property in the Yerba Buena Center and an issue of bonds approved by the Board of Supervisors of the City and County of San Francisco. YBCA is not responsible for the bond obligations. YBCA is responsible for raising the funds for its arts and education programs.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 MARKETABLE EQUITY SECURITIES

The following are the major categories of marketable equity securities measured at fair value on a recurring basis during the years ended June 30, 2012 and 2011, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	<u>Fair Value Measurements at June 30, 2012, Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Corporate bonds	\$ 828,486	\$ -	\$ -	\$ 828,486
Government bonds	247,684	-	-	247,684
Accrued interest on bonds	17,596	-	-	17,596
Domestic common stocks	1,484,695	-	-	1,484,695
International common stock	205,181	-	-	205,181
Domestic mutual funds	1,402,882	-	-	1,402,882
International mutual funds	705,716	-	-	705,716
	<u>\$ 4,892,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,892,240</u>

<u>Description</u>	<u>Fair Value Measurements at June 30, 2011, Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Corporate bonds	\$ 772,628	\$ -	\$ -	\$ 772,628
Government bonds	291,087	-	-	291,087
Accrued interest on bonds	16,009	-	-	16,009
Domestic common stocks	1,341,891	-	-	1,341,891
International common stock	238,392	-	-	238,392
Domestic mutual funds	365,146	-	-	365,146
International mutual funds	684,018	-	-	684,018
	<u>\$ 3,709,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,709,171</u>

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 MARKETABLE EQUITY SECURITIES (Continued)

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 109,805	\$ 99,134
(Loss) gain on sale of investments	(7,590)	2,622
Unrealized (loss)/gains	<u>(131,538)</u>	<u>602,009</u>
 Total investment income/(loss)	 <u>\$ (29,323)</u>	 <u>\$ 703,765</u>
 Investment income/(loss) - endowment	 \$ (37,737)	 \$ 427,824
Investment income/(loss) - other	<u>8,414</u>	<u>275,941</u>
 Total investment income/(loss)	 <u>\$ (29,323)</u>	 <u>\$ 703,765</u>

Investment fees for the years ended June 30, 2012 and 2011, amounted to \$42,284 and \$37,248, respectively.

NOTE 4 FIXTURES AND EQUIPMENT

Fixtures and equipment consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Computer equipment and software	\$ 571,595	\$ 620,166
Furniture	118,940	88,352
Office equipment	119,356	119,356
Leasehold improvements	684,574	554,884
Other equipment and machinery	562,021	556,914
Work in progress	<u>71,160</u>	<u>-</u>
Total	2,127,646	1,939,672
Less: accumulated depreciation	<u>(1,408,306)</u>	<u>(1,296,896)</u>
 Fixtures and equipment, net	 <u>\$ 719,340</u>	 <u>\$ 642,776</u>

Depreciation expense for the years ended June 30, 2012 and 2011, was \$241,638 and \$160,322, respectively.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 5 OPERATING AGREEMENT RESERVES

Under its operating agreement with the City and County of San Francisco (formerly with the SFRA), YBCA receives funding on a yearly basis (see Note 2). The agreement requires YBCA to set aside 5% of its annual appropriation from the City into an interior reserve fund, which amounts are to be used for minor capital improvements and alterations, repairs, and replacements in the interior of YBCA's two buildings. If at any time the amount of funds in this reserve is more than 50% of the City's annual appropriation, no additional funds need be deposited into the reserve.

The agreement further requires that 4% of the annual appropriation from the City be placed in an operating reserve fund to be used for cash flow purposes during the year; however, any expenditures made with these amounts are to be recouped from earned or contributed income so that there is no net reduction in the operating reserve from year to year. The only circumstance in which the City will permit a reduction in the reserve to occur is if City is not able to provide full funding to YBCA. If at anytime the amount of funds in this reserve is more than 25% of the City's annual appropriation, no additional funds need be deposited into the reserve. Due to the level of the operating reserves, YBCA did not have to deposit any funds into the operating reserve during the years ended June 30, 2012 and 2011. Due to the reduction in funding for the year ended June 30, 2011, \$222,000 was released from the operating reserve in that year.

The amounts placed in the interior reserve fund were recorded as temporarily restricted revenues when received. The funds cannot be expended without the advance written approval of the City. The total amounts expended from the interior reserve during 2012 and 2011 were \$404,199 and \$333,645, respectively.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011, as follows:

	<u>2012</u>	<u>2011</u>
SFRA interior reserve	\$ 188,041	\$ 425,383
SFRA operating reserve	999,786	998,578
General administrative and support	-	1,961,158
Future program activities	429,000	417,153
Accumulated endowment income	<u>100,798</u>	<u>239,434</u>
	<u>\$ 1,717,625</u>	<u>\$ 4,041,706</u>

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2012	2011
Performing arts	\$ 225,600	\$ 317,900
Visual arts	198,761	113,300
Community engagement	414,418	310,140
Interior reserve	404,199	333,645
General administrative and support	336,293	278,165
Accumulated endowment income	80,000	80,000
Endowment investment fees	20,899	-
Film / video program	17,000	10,000
Other program	2,250	-
Operating reserve	-	222,000
	\$ 1,699,420	\$ 1,665,150

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

YBCA's endowment consists of two investment accounts established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Law - The Board of Directors of YBCA has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, YBCA classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if applicable.

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 organization in a manner consistent with the standard of prudence prescribed in SPMIFA. In accordance with SPMIFA, the organization 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 purpose of the organization and the donor-restricted endowment fund
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 organization
7. The investment policies of the organization

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of:

<u>June 30, 2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 100,798	\$ 1,861,215	\$ 1,962,013
Total funds	<u>\$ -</u>	<u>\$ 100,798</u>	<u>\$ 1,861,215</u>	<u>\$ 1,962,013</u>

<u>June 30, 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 239,434	\$ 1,861,215	\$ 2,100,649
Total funds	<u>\$ -</u>	<u>\$ 239,434</u>	<u>\$ 1,861,215</u>	<u>\$ 2,100,649</u>

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ (88,855)	\$ -	\$ 1,861,215	\$ 1,772,360
Investment return:				
Interest and dividends	-	47,465	-	47,465
Realized gain	-	1,956	-	1,956
Unrealized gain	108,390	270,013	-	378,403
Investment fees	(19,535)	-	-	(19,535)
Total investment return	<u>88,855</u>	<u>319,434</u>	<u>-</u>	<u>408,289</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(80,000)</u>	<u>-</u>	<u>(80,000)</u>
Endowment net assets, June 30, 2011	<u>-</u>	<u>239,434</u>	<u>1,861,215</u>	<u>2,100,649</u>

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2012 and 2011 (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment return:				
Interest and dividends	-	51,011	-	51,011
Realized gain	-	(4,928)	-	(4,928)
Unrealized gain	-	(83,820)	-	(83,820)
Total investment return	-	(37,737)	-	(37,737)
Investment fees	-	(20,899)	-	(20,899)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(80,000)	-	(80,000)
Endowment net assets, June 30, 2012	\$ -	\$ 100,798	\$ 1,861,215	\$ 1,962,013

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended:

June 30, 2012

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained
Permanently either by explicit donor stipulation of SPMIFA \$ 1,861,215

Total endowment funds classified as permanently
restricted net assets \$ 1,861,215

Temporarily Restricted Net Assets

Term endowment funds \$ -
The portion of perpetual endowment funds subject to a
time restriction under SPMIFA:
Without purpose restrictions 100,798
With purpose restrictions -

Total endowment funds classified as temporarily
restricted net assets \$ 100,798

**YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011**

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended (Continued):

June 30, 2011

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained Permanently either by explicit donor stipulation of SPMIFA	<u>\$ 1,861,215</u>
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Total endowment funds classified as permanently restricted net assets	<u>\$ 1,861,215</u>
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Temporarily Restricted Net Assets

Term endowment funds	\$ -
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:	
Without purpose restrictions	239,434
With purpose restrictions	<u>-</u>

Total endowment funds classified as temporarily restricted net assets	<u>\$ 239,434</u>
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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 SPMIFA requires the organization to retain as a fund of perpetual duration. There were no deficiencies as of June 30, 2012 and 2011.

Return Objectives and Risk Parameters

YBCA has adopted investment and spending policies for endowment assets that attempt to provide a relatively stable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the market index, or blended market index, selected and agreed upon by the Finance and Operations Committee, that most closely corresponds to the style of investment management. YBCA expects its endowment funds to meet or exceed the median returns of an appropriate universe of institutional-quality investment managers over a three year horizon for equity investments and a five year horizon for fixed income investments. YBCA expects its endowment funds, over time, to provide a reasonable rate of return. Actual returns in any given year may vary.

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, YBCA 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). The organization targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

YBCA has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over a twelve quarter moving average, but will be set each year as part of the annual budget process. Other withdrawals are only permitted at the authorization of the Board of Directors. In establishing this policy, the organization considered its long-term expected return on its endowment. Accordingly, over the long-term, the organization expects the current spending policy to allow its endowment to grow by an amount equal to the rate of return, less the spending policy. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8 LICENSE AGREEMENT INCOME

On November 17, 2010, the Center signed a Rooftop License Agreement with a wireless telephone carrier (licensee) for the use of a portion of the roof area of the building occupied by YBCA for a cellphone tower. The term of the lease is ten years, with an automatic renewal for an additional ten years, and month-to-month thereafter. The license fee for the first year is \$60,000, payable in monthly installments of \$5,000, to increase by 3% annually for the duration of the term and any extensions. The licensee is also liable for utility charges related to the use of the rooftop area and other costs, and is subject to the Operating Agreement with City and County of San Francisco (formerly SFRA). The Center received \$60,890 and \$29,677 under this Agreement during the years ended June 30, 2012 and 2011, respectively.

The estimated future license fees to be received under this agreement are as follows:

<u>Year ending</u> <u>June 30,</u>	
2013	\$ 62,727
2014	64,609
2015	66,547
2016	68,543
2017	70,600
Thereafter	<u>263,907</u>
	<u>\$ 596,933</u>

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 9 TAX-DEFERRED ANNUITY PLAN

YBCA has an employer contributory tax-deferred annuity plan as established under Internal Revenue Code Section 403(b). In January 2005, YBCA established a second 403(b) plan that provides a wider range of investment options and lower investment fees for employees. Employees who have participated in the original 403(b) plan may choose to transfer assets from the old plan to the new plan. New employees that become eligible for participation are enrolled in the new plan.

The eligibility for both plans is the same: employees are eligible to participate in the plan on the first day for salary deferrals. Employees are eligible for employer matching contributions after six months of employment, provided that they normally work at least 20 hours per week and are not represented by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining. All participants are 100% vested in the employee and employer contributions. Total contributions made by YBCA for 2012 and 2011 were \$74,924 and \$64,093, respectively.

NOTE 10 CONCENTRATIONS AND CREDIT RISK

Cash - Financial instruments that potentially subject YBCA to credit risk consist primarily of cash, cash equivalents, investments, and accounts receivable. YBCA maintains cash and cash equivalents with commercial banks and other major financial institutions. At June 30, 2012, YBCA had approximately \$3,440,000 in interest-bearing accounts in excess of the federal depository insurance limit of \$250,000. Cash equivalents include money market funds.

Contributions, grants and contracts receivable - As of June 30, 2012, contributions, grants and contracts receivable included amounts due from three institutions that represent 79% of the gross contribution and grants receivable balance due. As of June 30, 2011, this number was 92%.

Revenues and support - For the years ended June 30, 2012 and 2011, approximately 22% of YBCA's unrestricted revenue and support was provided by the City and County of San Francisco (formerly the San Francisco Redevelopment Agency) in accordance with an operating agreement that will expire in 2019 (see Notes 2 and 5).

Labor - YBCA utilizes members of the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States, its Territories, and Canada Local No. 16 (Local 16 I.A.T.S.E.) for a significant portion of the labor related to the various performances sponsored by YBCA. The contract with Local 16 I.A.T.S.E. was renewed for a three-year term beginning July 1, 2012.

**YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011**

NOTE 11 RISKS, UNCERTAINTIES AND CONCENTRATIONS

The organization relies on a significant amount of funding received in the form of donations and grants from individuals and foundations as well as investment income to support its operations. The current global financial markets and discussions of a U.S. economic downturn may have an impact on the level of funding provided by these funding sources and the market value of marketable equity securities held by the organization. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the organization's exposure to impact from these events.

SUPPLEMENTARY INFORMATION

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended June 30, 2012

	Program Services							Supporting Services			Total
	Performing Arts	Visual Arts	Film/Video	Community Engagement	Subsidized Community Programs	Commercial Rentals	General Admin. and Operations	Fund-Raising	Dream House Raffles		
Salaries, payroll taxes and benefits	\$ 737,940	\$1,048,961	\$286,648	\$ 651,250	\$1,250,925	\$ 1,855,003	\$ 576,411	\$ 525,387	\$ 698,588	\$ 7,631,113	
Artist fees and expenses	363,160	79,797	12,578	21,446	146	243	889	9,503	658	488,420	
Program and production expenses	53,028	304,634	43,586	176,029	39,899	225,426	44,089	25,777	1,720,503	2,632,971	
Marketing & public relations	54,506	30,751	12,528	46,208	4,068	12,615	11,227	2,705	1,385,183	1,559,791	
Travel and hospitality	8,571	27,353	10,993	21,329	3,007	10,868	10,068	9,764	1,546	103,499	
Security and janitorial services	20,354	50,501	9,178	33,769	36,592	31,758	27,466	668	42	210,328	
Equipment maintenance and supplies	29,050	33,603	11,625	24,737	30,117	24,038	28,335	2,424	1,323	185,252	
Utilities	21,726	43,453	10,863	32,590	43,453	32,590	32,590	-	-	217,265	
Insurance	7,655	11,158	3,828	6,379	5,924	9,843	35,999	10,116	2,734	93,636	
Office supplies	77,151	271,865	32,167	54,240	45,611	35,337	94,635	58,957	506,623	1,176,586	
In-kind gifts expense	73	1,383	37	2,610	57	94	344	3,105	218	7,921	
Professional services	4,412	4,990	2,206	3,677	3,414	5,673	20,748	5,831	3,251	54,202	
Other facilities expenses	1,865	1,124	345	966	814	4,301	1,098	141	79	10,733	
Miscellaneous expense	4,233	4,785	2,114	3,527	3,356	5,439	19,900	5,591	1,513	50,458	
Depreciation	20,298	22,956	10,149	16,915	15,706	26,097	95,446	26,822	7,249	241,638	
Interior Reserve	4,087	12,887	1,428	2,827	7,686	7,155	12,950	3,055	810	52,885	
Total	\$ 1,408,109	\$1,950,201	\$450,273	\$ 1,098,499	\$1,490,775	\$ 2,286,480	\$ 1,012,195	\$ 689,846	\$ 4,330,320	\$ 14,716,698	

YERBA BUENA CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended June 30, 2011

	Program Services						Supporting Services			Total
	Performing Arts	Visual Arts	Film/Video	Community Engagement	Subsidized Community Programs	Commercial Rentals	General Admin. and Operations	Fund-Raising	Dream House Raffle	
Salaries, payroll taxes and benefits	\$ 530,070	\$ 755,572	\$ 251,251	\$ 427,490	\$ 400,396	\$ 518,735	\$ 533,995	\$ 513,872	\$ 552,038	\$ 4,483,419
Artist fees and expenses	358,309	70,901	142	1,402	-	-	-	-	-	430,754
Program and production expenses	372,524	740,261	115,586	182,265	677,985	1,745,232	39,035	61,271	1,560,326	5,494,485
Marketing & public relations	107,688	120,215	33,587	36,219	11,115	22,037	2,847	28,982	1,296,001	1,658,691
Membership and cultivation	-	-	-	-	-	-	-	13,210	88,799	102,009
Security and janitorial services	50,772	110,989	21,839	45,982	70,008	82,568	157,598	13,505	1	553,262
Equipment maintenance and supplies	20,896	39,694	11,816	13,792	24,195	26,372	47,529	23,889	92,439	300,622
Utilities	29,491	35,569	14,745	28,691	28,406	40,245	111,948	13,993	1,713	304,801
Insurance	9,628	10,889	4,814	8,023	7,450	12,379	45,274	12,723	4,428	115,608
Office supplies	7,606	10,319	3,704	6,247	5,210	11,468	27,681	14,353	2,936	89,524
In-kind gifts expense	23,000	19,240	9,387	15,788	3,751	5,983	13,154	19,873	1,803	111,979
Miscellaneous expense	2,222	2,138	902	1,296	955	1,525	5,251	1,681	396	16,366
Depreciation	13,467	15,231	6,734	11,223	10,421	17,315	63,325	17,796	4,810	160,322
Interior Reserve	7,163	10,022	2,935	4,703	7,602	14,055	16,969	3,748	650	67,847
Total	\$ 1,532,836	\$ 1,941,040	\$ 477,442	\$ 783,121	\$ 1,247,494	\$ 2,497,914	\$ 1,064,606	\$ 738,996	\$ 3,606,340	\$ 13,889,689