

The logo for Strategic Philanthropy Advisors is a dark teal square with the text "Strategic Philanthropy Advisors" in a white serif font. "Strategic" is on the top line, "Philanthropy" is on the middle line, and "Advisors" is on the bottom line.

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Analysis of the Costs Associated with the Operations and Management

Of

Susan and Phil Hammer Theatre Center

From September 1, 2005 through August 24, 2009

Submitted to

The City of San Jose — Office of Cultural Affairs

Submitted by

Strategic Philanthropy Advisors, LLC

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Executive Summary

In June 2009, The City of San Jose – Office of Cultural Affairs (“City”) commissioned Strategic Philanthropy Advisors, LLC (“SP Advisors”) to conduct a study of the costs of operating and maintaining the Susan and Phil Hammer Theatre (“Theater”) located at 101 Paseo de San Antonio in downtown San Jose. The Theater is a City-owned facility that is operated and managed by a nonprofit theater company, the San Jose Repertory Theater (“SJ Rep”).

SP Advisors reviewed financial information provided by the City of San Jose as well as analyzed and categorized 9,500 General Ledger expense line items from the SJ Rep’s accounting system related to the Theater. These expenses were further categorized by type.

The chart below provides an overview of our findings. We have made a distinction between expenses related specifically to maintaining and operating the facility from expenses related to SJ Rep’s management of the administrative duties related to its oversight.

The first section, “Building Specific Expenses”, contains costs specific to the structure: operating and maintaining its equipment and systems as well as keeping the facility clean and serviceable for its intended use as a performing arts space with a 500-seat theater and rehearsal studio. Samples of expenses included in the five sub categories are building security, HVAC; elevator, and sprinkler system servicing and repairs; City of San Jose-required insurance and permits; maintenance for the Theater’s stage and rigging system; building plumbing and boiler upkeep; building cleaning; and costs related to the experienced and professional staff required to operate the technical aspects of the backstage theater operations as well as oversee facility maintenance and repairs. Additional expenses consist of utilities and depreciation expenses related to leasehold improvements. Examples of the latter expenses include costs for the installation of theater seats, theatrical lighting systems, a stage trap floor and new lobby carpeting.

The second section, “Administrative Expenses related to the Theater” contain expenses commonly referred to as “overhead” or “General and Administrative Costs.” Although these expenses such as accounting software and support; box office-related staff and fees; and administrative staff oversight are currently incurred by the SJ Rep in its management of the Theater, these expenses would be incurred by any entity managing the facility.

Many of the SJ Rep-related category totals by fiscal year are not 100 percent of the total expenses incurred by the organization as we have removed expenses related to programming, development, and other non facility related charges. As an example, the line item “SJ Rep: Facility Utilities” contains an expense allocation of 15 percent of the total utility costs equal to the Auditor’s allocations calculated by the square footage of the facility. The 15 percent allocation represents an amount equal to the General and Administrative expenses for gas, electricity, water, and telephone usage. Thus the 70 percent of the utility costs associated with programming (using the facility for performances, rehearsals and related uses) has been removed as have the remaining 15 percent of utility costs associated with development and fundraising expenses for the SJ Rep.

Theater-related Operations and Maintenance Expenses

Building Specific Expenses:							5 Year Average (or 3 Year When Appropriate)
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	Total	
City of San Jose: Facility O & M Expenses	\$3,617	\$7,059	\$16,077	\$6,632	\$2,860	\$36,245	\$7,249
SJ Rep: Depreciation*	\$446,439	\$352,711	\$327,270	\$300,828	\$300,828	\$1,728,076	\$345,615
SJ Rep: Facility Cleaning	\$98,811	\$111,186	\$110,017	\$112,120	\$80,486	\$512,620	\$102,524
SJ Rep: Facility Maintenance & Operations	\$173,593	\$116,583	\$141,138	\$153,147	\$104,862	\$689,323	\$137,865
SJ Rep: Staff Necessary to Run Facility	Not Available	Not Available	\$248,483	\$248,483	\$254,274	\$751,240	\$250,413
SJ Rep: Facility Utilities	\$88,245	\$58,950	\$55,552	\$67,779	\$60,651	\$331,177	\$66,235
Total	\$807,088	\$639,430	\$898,537	\$888,989	\$803,961	\$4,048,681	\$909,902
Administrative Expenses related to the Theater:							
SJ Rep: Box Office Expenses	Not Available	Not Available	\$158,057	\$150,403	\$146,098	\$454,558	\$151,519
SJ Rep: Facility-related Administrative Expenses	\$43,359	\$36,716	\$23,719	\$21,774	\$28,685	\$154,253	\$30,851
SJ Rep: Staff Necessary to Manage Facility (Administrative)	Not Available	Not Available	\$67,087	\$67,087	\$66,546	\$200,720	\$66,907
Total	\$43,359	\$36,716	\$248,863	\$239,264	\$241,329	\$809,531	\$249,277
Grand Total of Building Specific and Administrative Expenses related to the Management and Operations of the Theater	\$850,447	\$676,146	\$1,147,400	\$1,128,253	\$1,045,290	\$4,858,212	\$1,159,178

* FYEs 2005 to 2008 contain Audited numbers. As the audit for FYE 2009 has not been released, we have kept the number flat from FYE 2008.

We have not included Rent Expense of \$475,000 annually as it is a non cash item offset by the donated facility.

Scope of Work

SP Advisors assessed the actual expenses incurred for facility management and operations of the Theater over the last five of the SJ Rep's fiscal years ending on August 31 (FYE 2005-2009), and computed average expenses for material budget categories over this time period. We also calculated both the City's and the SJ Rep's actual maintenance costs of the Theater over this same time period and each entity's average costs for the five-year period. Included in the cost assessment was the analysis of the staff and outside contractors SP Advisors believes are needed to operate the Theater annually.

Lastly, SP Advisors has projected annual maintenance costs for Theater operations for the next three years. We have also included items the SJ Rep needs to budget for related to its management of the facility. We have also worked with the SJ Rep to identify significant annual and periodic maintenance requirements that are likely to occur in the next three years.

The scope of work relates only to expenses incurred by the SJ Rep and the City' related to the maintenance and operations of the facility. It does not include analyses of any income the SJ Rep receives from ticket sales; rentals; individual and corporate donations; grants from foundations and the City; as well as the annual operations and maintenance payment provided to the SJ Rep for the facility. Conversely, our draft budgets for theatre-related expenses for the next three years do not

take into account nonprofit best practices of creating an income-based budget. Our draft budgets are based on the average of actual expenses for the Theater over the last five years as well as an increase in some expense categories, such as cleaning, based on our recommendation that additional work needs to be done each year to maintain the facility in good condition.

Methodology

SP Advisors received financial information on the Theater from both the City and the SJ Rep.

General Services Department provided a spreadsheet containing material and labor costs the City spent on the Theater from November 2004. It also provided information on the vendors used for each job.

The SJ Rep provided spreadsheets containing General Ledger (“GL”) line item information on debits and credits from accounts in its Great Plains accounting System. Initially, SP Advisors reviewed the list of 2,448 chart of account names within its robust financial accounting system. With help from the SJ Rep’s Director of Finance on the information contained within the various chart of accounts, SP Advisors requested detailed information from 63 separate accounts containing approximately 9,500 line items. This data was categorized by expense type and eligibility within each of the SJ Rep’s fiscal years ended August 31 for 2005 to 2008 and included almost the entire fiscal year 2009 with data through August 24. Utility and depreciation expenses were provided for the full fiscal year 2009. Although the data for FYE 2009 is not complete, the SJ Rep believes most of its expenses for this fiscal year are captured within Great Plains and was provided to SP Advisors.

The SJ Rep allocates all program expenses related to productions, facility rentals, and education programs to specific accounts established for tracking these costs. As a result, SP Advisors was able to identify and then calculate the cost of only Theater-related maintenance and operations expenses.

SP Advisors also requested data from GL accounts not identified as facility related to see what type of debit and credits it contained. It was another way of making sure that no production-related maintenance expenses were charged to the general Theater facilities account or general facility-related expenses charged to production-related accounts. As an example, lighting rental costs for specific equipment should have always been charged to specific productions and it always was. Materials and supplies required for the creation of sets are considered production expenses and should never have included in Theater-related maintenance and operations expenses. It was very rare that a production expense had been misallocated to a Theater account.

Numerous types of SJ Rep expenses items found in the actual Theater-related accounts we reviewed were removed because SP Advisors did not consider them to be operations and maintenance expenses even though they had been expensed to a building operations account. Examples of these items are as follows: bottled water; expenses customary to all nonprofits of this size (auditor fees, IRS Form 990 filings, State of California fees, and Directors & Officers Insurance); auto-related expenses with the exception of the auto policy which is often included in general liability insurance policies and therefore impossible to separate; all income items (ticket sales, rental income, grants, individual donations, fees); employee health insurance and other benefits (with the exception of those mandated for union employees in positions directly related to running the Theatre such as fly, sound, rigging etc.), and staff necessary to run the facility); postage costs for the Box Office; Stone

Avenue Scene Shop; production and education program expenses; and machinery and supplies related to the concession stand and the gift shop.

The SJ Rep provided SP Advisors with bids it has received for specific facility maintenance and operations items needing repair or replacement over the next three years.

SP Advisors reviewed audited financial statements for the SJ Rep for FYEs 2004 - 2008. Each year the Auditor allocated a percentage of total expenses by type and within these classifications to program and support expenses. SP Advisors has used these percentage allocations, when appropriate, to allocate various Theater-related maintenance and operations expenses.

Operations & Maintenance Agreement

The City and the SJ Rep entered into an operations and maintenance agreement (“O & M Agreement”) dated December 14, 1995 to provide for the operation and management of the Theater by the non profit organization. The document references how the Theater is to be used, the responsibilities of each entity, and provides a maintenance matrix outlining the responsibilities of each party related to the facility. The matrix covers routine daily maintenance; preventative maintenance; structural maintenance; and replacement obligations. As part of this agreement, the SJ Rep receives City funding assistance annually to operate and manage the Theater.

City of San Jose Theater-related Maintenance Costs

The following chart outlines the annual cost for labor and materials for maintenance and repair items paid for by the City over the last five years using the SJ Rep’s fiscal year end of August 31. The annual O&M payment made by the City to the SJ Rep has not been added to these charts.

	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	Total	5-Year Average
Labor	\$327	\$2,270	\$1,320	\$685	\$146	\$4,748	\$950
Materials	\$3,290	\$4,789	\$14,757	\$5,947	\$2,714	\$31,497	\$6,299
Total	\$3,617	\$7,059	\$16,077	\$6,632	\$2,860	\$36,245	\$7,249

A further break down of expense items can be found in the following chart. SP Advisors grouped like items together when the expense description allowed us to do so.

City of San Jose Labor & Material Costs for Theater Maintenance & Operations							
Expense Category	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	Total	5 Year Average
Art Lights	-	-	-	\$1,151	-	\$1,151	\$230
Box Office Mail Slot	-	-	\$711	-	-	\$711	\$142
Building Safety Systems & Security	-	\$246	-	\$4,171	\$2,860	\$7,277	\$1,455
Electrical & Lighting	-	\$561	-	-	-	\$561	\$112
Exterior & Lobby Doors	\$1,156	\$3,433	\$5,825	\$191	-	\$10,604	\$2,121
Exterior (Benches & Tree)	-	\$89	-	-	-	\$89	\$18
Jockey Pump	-	\$31	-	-	-	\$31	\$6
Leak in Electrical Room	-	\$441	-	-	-	\$441	\$88
Lobby Carpet	\$75	\$1,031	-	\$706	-	\$1,812	\$362
Misc.	\$0	-	\$218	-	-	\$218	\$44
Roof Repair	\$2,385	\$1,227	\$1,920	-	-	\$5,533	\$1,107
Theater Event	-	-	-	\$414	-	\$414	\$83
Unknown Repairs	-	-	\$7,403	-	-	\$7,403	\$1,481
Total	\$3,616	\$7,058	\$16,077	\$6,632	\$2,860	\$36,243	\$7,249

SP Advisors reviewed expenses by year, expense category totals, and the five year average for each expense category as well as for the total expenses in order to recommend future budget allocations for the City. It is difficult to project if any of the expense categories listed above will require future maintenance or if any items will need to be replaced per the City's requirements outlined in the O&M Maintenance Matrix. In addition, not all of the expense categories include maintenance and repair costs each year. The majority of the items were one-time expenses and an assumption has been made that no further work will need to be done on these historical projects.

The expenses incurred by the City ranged from a low of \$2,860 in FYE 2009 to a high of \$14,452 in FYE 2006 with a five-year average cost of \$7,249.

It can be expected the Theater roof will occasionally need preventative maintenance so that it will last well beyond 2017. According to the Maintenance Matrix, the City is responsible for its preventative maintenance, emergency repairs, minor improvements and unit replacement. SP Advisors expects that the City will need to clean the leaves and other debris from around the roof drains so that rain does not leak into the building. It is also possible minor patching will need to be done to the roof surface over the next couple of years as it is now 13 years old. SP Advisors has added \$2,000 to the annual budget for these purposes.

The exterior and lobby doors of the Theatre have been the largest total expense category over the last five years. We do not know the extent of the work done on the doors but have deemed it prudent to budget \$3,000 annually for this work. We have not budgeted for lobby carpet cleaning as the carpets have recently been replaced. We have, however, budgeted for carpet cleaning expenses for both the lobby and the auditorium in the SJ Rep's budgets for FYEs 2010 to 2012.

The category called Building Safety & Systems primarily contains costs associated with inspecting the sprinkler system. As there was such a discrepancy between FYEs 2008 and 2009, which is when the inspections started, we budgeted \$3,000 annually.

Unknown repair items are the hardest items to budget for since the majority of the City's maintenance responsibilities are related to unit replacement. There is no definition provided of "unit replacement" so does this mean an entire system replacement or potentially a component within a system? We understand from the SJ Rep that an air conditioner compressor needs to be replaced within the HVAC system for an approximate cost of \$11,000 to \$13,000. This item was not flagged during the March facilities inspection by outside consultants as a potential problem needing routine or emergency maintenance. This situation serves as an example that there are items within the facility that will potentially need to be repaired or replaced in the near future as the Theater is now almost 13 years old. As SP Advisors are not facility maintenance professionals and a facilities replacement plan was outside of the scope of this project, we can only make guestimates about future annual maintenance expenditures. Therefore we have budgeted \$20,000 annually for the City's Theater-related operations and maintenance expenses, which may be too high or too low in any given year.

SJ Rep Theater-related Operations and Maintenance Costs

Charts have been prepared containing expenses, which in SP Advisors' opinion are related to the operations and maintenance of the Theatre.

As has been discussed in the section on methodology, within the various GL accounts we were not always able to determine the purpose for debit and credit or the vendor. SP Advisors worked with the SJ Rep to find information on each unknown item; however this was not always possible to do with items before FYE 2009. We did our best to match known expense items and costs within categories with similar amounts and categories in prior years. We used our best judgment; however, we caution that all of the historical invoices would need to be pulled for each unknown item in order to be fully confident of the expense type. As a consequence, our charts should be viewed as providing a foundation from which to view the historical cost of running and operating the Theater for the last five years and a starting point for budgeting for the operations and maintenance of the facility in future years.

The City and the SJ Rep may not agree with the eligibility of all of our category classifications or the percentage of the total expenses we have allocated to Theater maintenance and operations. This is for the two entities to determine at a future date and we have not been charged with making any recommendations about the Theater other than providing a draft budget for the next three years for the facility. The raw data has been provided so that both entities can view the various line item totals by year that SP Advisors has allocated by type and within categories related to the facility itself and to its management.

As the SJ Rep practices accrual accounting and not the cash basis of accounting, our list of annual operating and maintenance costs for the Theatre is best viewed from a budgeting standpoint. We have made an assumption that all of the expenses in the charts in this section were paid by the SJ Rep in the year the expense was incurred. Assets with a useful life of three to 15 years are depreciated in the straight line method and are not included in these charts. These depreciating assets and the implication for budgeting for their replacement items as well as budgeting for depreciation expenses are covered later in this report.

SP Advisors has taken all of the expenses we determined are related to Theater maintenance and operations costs and classified them by expense category. Next we determined the percentage of eligibility. According to the O& M Agreement, the SJ Rep is required to operate the Theater “to fulfill the following principal objectives to the greatest extent possible”:

- A. “To provide the highest quality of live-performance repertory theater to visitors and residents of the City of San Jose;
- B. “To the extent not used by SJ Rep for performances and rehearsals, to make the Theater Facility reasonable available to other community performance arts groups for performances and rehearsal” (for a minimum of six weeks annually); and
- C. “To develop and maintain a capable, experience professional staff to operate the Theater Facility in a first-class manner.”

Scene Shop

The SJ Rep has a scene shop located on Stone Avenue (“Stone Ave.”). The costs associated with maintaining this facility are not part of the expenses associated with operating and maintaining the Theater. However, the SJ Rep and its Auditor have been allocating all of the Stone Ave. building maintenance expenses to the organization’s General & Administrative Expenses, also known as “Overhead”. The cost of materials used to create the props and scenes are allocated in Great Plains to Other Expenses, which roll up to Production Expenses and are eventually allocated to Program Expenses.

The Stone Ave. facility expenses from GL account *8600-000 Building Maintenance/ Stone Ave.* for the FYEs 2005 though 2009 average \$9,111 a year excluding utilities (gas, electricity, water, and trash removal) as these expenses are charged to *8550-000 Building Operations Utilities* and *8570-000 Building Operations Contract Services*. The account expenses are mostly related to lighting, locksmith services, plumbing, miscellaneous supplies, and fire safety.

Building Maintenance/Stone Avenue Account 8600-00						
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	5-Year Average
Total Expenses	\$16,213	\$11,211	\$5,885	\$2,066	\$10,177	\$9,111

The average expenses over the last five years as well as those for each fiscal year are not material when viewed within the context of the total General & Administrative expenses found in SJ Rep’s Audit.

Statement of Financial Activities						
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>		
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	4-Year Average
Total General & Administrative Expenses	\$1,908,137	\$1,681,514	\$926,592	\$960,122	N.A.	\$1,369,091

There is no one equivalent GL “Building Maintenance” account in Great Plains for the Theater, hence the scope of this report.

Strategic Philanthropy Advisors, LLC is highlighting this matter because expense allocation calculations related to the costs of operating and managing the Theater have been prepared for this report based on the Auditor’s methodology of allocating a percentage of expenses to Total Program and Total Support, and within these categories to General & Administration, Fundraising, Production Costs, and Education Programs. Therefore, it is possible that a small dollar amount of some expense calculations allocated to the Theater should theoretically have been allocated to Stone Ave. As these expenses are not material we do not feel this is an issue.

Whenever possible, Strategic Philanthropy Advisors, LLC removed identifiable Stone Ave.-related expenses from the general expense categories. In order for us to have done so, the description of the GL item had to reference the scene shop in the debit or credit description. In addition, past expense items, their descriptions, and corresponding dollar amounts enabled us to remove items we believed referenced Stone Ave. in prior years.

Auditor’s Functional Expense Allocations

The Auditor allocated percentages to expenses listed in the Statement of Functional Expenses. The percentages vary by category within Program Expenses and Support Expenses. Some allocations have changed over the last three audits (FYE 2006 to 2008.) As an example, while the total percentage allocation of utilities between Total Program (70 percent) and Total Support (30 percent) has remained constant, the allocations within General & Administration and Fundraising have varied over the years. In the FYE 2008 audit the percentage of utility expenses allocated to Total Support was split evenly between General & Administration (15 percent) and Fundraising (15 percent.)

Strategic Philanthropy Advisors, LLC is using the percentage allocations from the FYE 2008 Audit, when appropriate, as SJ Rep financial staff worked with the Auditor on the expense allocation and the organization believes the allocations to be fair.

Condensed Chart of SJ Rep’s Cost to Operate and Maintain the Theater

The following chart is a condensed version of other charts in this report that contain the eligible theater-related expenses incurred by the SJ Rep as interpreted by SP Advisors through an analysis of GL account line items pertaining to the operations and maintenance of the Theater and the associated staff necessary to run the facility so that it can be used as intend and outlined in the O&M Agreement.

Condensed SJ Rep's Theater-related Operations and Maintenance Expenses

	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	Total	5 Year Average (or 3 when appropriate)	Recommended Budget Allocation FYE 2010
Building Specific Expenses:								
Depreciation*	\$446,439	\$352,711	\$327,270	\$300,828	\$300,828	\$1,728,076	\$345,615	\$420,416
Facility Cleaning	\$98,811	\$111,186	\$110,017	\$112,120	\$80,486	\$512,620	\$102,524	\$108,000
Facility Maintenance & Operations	\$173,593	\$116,583	\$141,138	\$153,147	\$104,862	\$689,323	\$137,865	\$150,000
Staff Necessary to Run Facility	Not Available	Not Available	\$248,483	\$248,483	\$254,274	\$751,240	\$250,413	\$244,264
Facility Utilities	\$88,245	\$58,950	\$55,552	\$67,779	\$60,651	\$331,177	\$66,235	\$70,000
Total	\$807,088	\$639,430	\$882,460	\$882,357	\$801,101	\$4,012,436	\$902,653	\$992,680
Administrative Expenses related to the Theater:								
Box Office Expenses	Not Available	Not Available	\$158,057	\$150,403	\$146,098	\$454,558	\$151,519	\$152,000
Facility-related Administrative Expenses	\$43,359	\$36,716	\$23,719	\$21,774	\$28,685	\$154,253	\$30,851	\$35,000
Staff Necessary to Manage Facility (Administrative)	Not Available	Not Available	\$67,087	\$67,087	\$66,546	\$200,720	\$66,907	\$66,546
Total	\$43,359	\$36,716	\$248,863	\$239,264	\$241,329	\$809,531	\$249,277	\$253,546
Grand Total of Building Specific and Administrative Expenses related to the Management and Operations of the Theater	\$850,447	\$676,146	\$1,131,323	\$1,121,621	\$1,042,430	\$4,821,967	\$1,151,929	\$1,246,226

* It is not yet known how much depreciation expense the Auditor will be allocated to Programs and G&A in FYE 2008. As an estimate we kept the expense flat from the prior year.

*2 Janitorial staff expense is contained in Facility Cleaning as technically these expenses could be outsourced.

*3 Box Office expenses include box office staff for FYE 2007 through 2009

** We have not included Rent Expense of \$475,000 annually as it is a non cash item offset by the donated facility.

SP Advisors has separated facility costs related to the Theater from costs related to its administration and managerial oversight.

Facility Maintenance and Operations Costs

We have grouped all costs related to the building such as HVAC, elevator, the sprinkler system, and repairs to the physical structure together with costs required by state and local law for its operations such as permits and first aid kits. We have also added costs necessary to run the facility as a theatre such as sound equipment for the auditorium, and stage and rigging equipment. Lastly we added insurance costs required by the O&M Agreement and other risk management policies. The line items in the chart below are annual expenses the SJ Rep has incurred over the last five years related to the operations and maintenance of the Theater.

All of these costs are related to preventative maintenance as well as repairs and replacements for fixtures and equipment. It also includes the Pacific Gas & Electricity charges for the auxiliary fire pump equipment.

Building Safety and Equipment relates to fire alarms and extinguishers as well as to the Theater's security system and alarms.

We discuss utilities, which include electricity, telephone, and water, in other sections and list these totals as a separate line item in the summary charts.

Facility Maintenance & Operations

Expense Category	% Allocation	FYE 2005		FYE 2006		FYE 2007		FYE 2008		FYE 2009 (to 8/24/09 with Utility-related costs to 8/31/09)	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Alarm, Elevator, HVAC	100%	\$56,524	\$56,524	\$32,861	\$32,861	\$43,207	\$43,207	\$72,727	\$72,727	\$36,597	\$36,597
Auxiliary Fire Pump	100%	\$185	\$185	\$381	\$381	\$175	\$175	\$183	\$183	\$282	\$282
Building Safety Systems & Security	100%	\$3,360	\$3,360	\$4,023	\$4,023	\$3,939	\$3,939	\$2,228	\$2,228	\$2,380	\$2,380
Contract Services - Unknown Items	100%	\$23,642	\$23,642	\$995	\$995	-	-	\$2,630	\$2,630	-	-
Electrical & Lighting	100%	\$15,727	\$15,727	\$5,574	\$5,574	\$19,159	\$19,159	\$7,208	\$7,208	\$4,361	\$4,361
First Aid Kits	100%	\$1,716	\$1,716	\$366	\$366	\$699	\$699	\$1,299	\$1,299	\$865	\$865
Insurance - Accident	100%	-	-	\$7,659	\$7,659	\$3,007	\$3,007	-	-	\$1,980	\$1,980
Insurance - General Liability	100%	\$35,552	\$35,552	\$39,673	\$39,673	\$41,086	\$41,086	\$47,996	\$47,996	\$32,652	\$32,652
Insurance - Unknown Items	100%	\$11,288	\$11,288	10,563	10,563	\$6,887	\$6,887	-	-	-	-
Internet/Data Lines/Network	100%	\$4,661	\$4,661	\$7,520	\$7,520	\$8,201	\$8,201	\$8,158	\$8,158	\$13,989	\$13,989
Misc. Building-related Supplies & Repairs	100%	\$15,509	\$15,509	\$2,274	\$2,274	\$3,785	\$3,785	\$5,936	\$5,936	\$1,834	\$1,834
Permits - ABC License	100%	-	-	-	-	\$868	\$868	-	-	\$868	\$868
Permits - CA Dept. of Toxic	100%	\$150	\$150	-	-	\$300	\$300	-	-	\$315	\$315
Permits - Environmental Health	100%	-	-	\$243	\$243	\$1,091	\$1,091	\$1,798	\$1,798	\$621	\$621
Permits - Fire	100%	\$697	\$697	\$357	\$357	\$2,122	\$2,122	\$212	\$212	\$897	\$897
Permits - Unknown	100%	\$462	\$462	-	-	-	-	\$376	\$376	\$406	\$406
Pest Control	100%	\$195	\$195	\$170	\$170	\$170	\$170	\$255	\$255	\$255	\$255
Plumbing, Boiler, Backflow & Water Treatment	100%	\$693	\$693	\$1,389	\$1,389	\$3,445	\$3,445	\$208	\$208	-	-
Sound Equipment & Related	100%	\$1,552	\$1,552	\$1,614	\$1,614	\$504	\$504	\$0	\$0	\$30	\$30
Sprinkler System	100%	\$607	\$607	\$465	\$465	\$632	\$632	\$579	\$579	\$479	\$479
Stage & Rigging	100%	\$1,074	\$1,074	\$456	\$456	\$1,861	\$1,861	\$1,357	\$1,357	\$194	\$194
Supplies - Technology Related	100%	-	-	-	-	-	-	-	-	\$530	\$530
Technology & Servers	100%	-	-	-	-	-	-	-	-	\$5,328	\$5,328
Total		\$173,593	\$173,593	\$116,583	\$116,583	\$141,138	\$141,138	\$153,147	\$153,147	\$104,862	\$104,862

To the best of SP Advisors' ability D&O, Cobra, and Health insurance charges are not included in this total.

The following chart details the five-year total and average costs by expense category.

Facility Maintenance & Operations			
Expense Category	% Allocation	5 Years	
		Total Costs	Average
Alarm, Elevator, HVAC	100%	\$241,915	\$48,383
Auxiliary Fire Pump	100%	\$1,206	\$236
Building Safety Systems & Security	100%	\$15,930	\$3,186
Contract Services - Unknown Items	100%	\$27,266	\$5,453
Electrical & Lighting	100%	\$52,029	\$10,406
First Aid Kits	100%	\$4,945	\$989
Insurance - Accident	100%	\$12,646	\$2,529
Insurance - General Liability	100%	\$196,958	\$39,392
Insurance - Unknown Items	100%	\$28,738	\$5,748
Internet/Data Lines/Network Security	100%	\$42,528	\$8,506
Misc. Building-related Supplies & Repairs	100%	\$29,338	\$5,868
Permits - ABC License	100%	\$1,736	\$347
Permits - CA Dept. of Toxic Substance	100%	\$765	\$153
Permits - Environmental Health	100%	\$3,753	\$751
Permits - Fire	100%	\$4,285	\$857
Permits - Unknown	100%	\$1,244	\$249
Pest Control	100%	\$1,045	\$209
Plumbing, Boiler, Backflow & Water Treatment	100%	\$5,735	\$1,147
Sound Equipment & Related Software	100%	\$3,701	\$740
Sprinkler System	100%	\$2,761	\$541
Stage & Rigging	100%	\$4,942	\$988
Supplies - Technology Related	100%	\$530	\$106
Technology & Servers	100%	\$5,328	\$1,066
	Total	\$689,323	\$137,850

To the best of SP Advisors' ability DeO, Cobra, and Health insurance charges are not included in this total.

Facility Administration-related Costs

The following chart contains expenses that are commonly referred to as “overhead” or General & Administrative costs. We added office-related expenses such as accounting software necessary to pay the Theater’s invoices; office equipment rentals such as copy machines; and supplies.

SP Advisors allocated most of the expenses at 100 percent. The reasoning behind this methodology is that the SJ Rep has to pay for these expenses in full regardless of how often the facility is rented to the community and per the O&M Agreement it is required to make the Theater available to other community arts groups for a minimum of six weeks a year.

These expenses would also be incurred by any entity managing the facility. We reduced the allocation if the expenses could be allocated to SJ Rep’s Development Department, whose primary responsibility is to raise money for the organization and not the Theater. Although the department also has raised money for the facility, we would expect that these expenses are incrementally immaterial. We used the Auditor’s expense allocations as a guide for allocating percentages.

While it is true that what ever entity operates and manages the Theater will incur the costs contained in the chart below (as an example the City, the SJ Rep or a theater management company), an argument can also be made that such entity would also incur these costs as a matter of conducting business, be it for profit or non profit, regardless of whether it was operating a theater facility. We have included these facility-related administration costs as the SJ Rep will need to budget for these items annually. We also note that the City and the SJ Rep might have a different view as to the eligibility of these expenses and whether or not they should be included in the overall costs of managing and operating the Theater.

Facility-related Administration Expenses											
Expense Category	% Allocation	FYE 2005		FYE 2006		FYE 2007		FYE 2008		FYE 2009 (to 8/24/09)	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Accounting Software & Support	100%	\$263	\$263	-	-	\$7,391	\$7,391	\$1,790	\$1,790	\$2,486	\$2,486
Computer & Office Supplies	16.4%	\$917	\$150	\$1,485	\$243	\$2,219	\$364	\$2,446	\$401	\$11,092	\$1,819
Copy Machine Lease	100%	\$11,016	\$11,016	\$6,637	\$6,637	\$10,701	\$10,701	\$10,967	\$10,967	\$9,055	\$9,055
Insurance - Concessions/box office, Credit cards, & Cash	100%	\$1,136	\$1,136	-	-	-	-	\$1,134	\$1,134	\$1,134	\$1,134
Office Equipment Rentals: Unknown Items	100%	\$7,667	\$7,667	\$16,872	\$16,872	\$740	\$740	\$590	\$590	-	-
Permits - USPS	42%	-	-	-	-	-	-	-	-	\$360	\$151
Postal Machine Lease	100%	\$569	\$569	\$3,126	\$3,126	-	-	\$933	\$933	\$1,300	\$1,300
Software (Maintenance, Support & Purchase)	60%	\$32,554	\$19,532	\$6,880	\$4,128	\$802	\$481	\$350	\$210	\$782	\$469
Website Hosting, Design & Maintenance	100%	\$3,289	\$3,289	\$5,710	\$5,710	\$4,041	\$4,041	\$5,749	\$5,749	\$12,271	\$12,271
Total		\$57,410	\$43,622	\$40,709	\$36,716	\$25,895	\$23,719	\$23,959	\$21,774	\$38,480	\$28,685

This chart contains the five-year average of total facility-related administration expenses.

Facility-related Administration Expenses			
Expense Category	%	5 Years	
		Total Costs w/in %	Average
Expense Category	Allocation	Allocation	Average
Accounting Software & Support	100%	\$11,929	\$2,386
Computer & Office Supplies	16.4%	\$2,978	\$3,632
Copy Machine Lease	100%	\$48,377	\$9,675
Insurance - Concessions/box office, Credit cards, & Cash	100%	\$3,404	\$681
Office Equipment Rentals: Unknown Items	100%	\$25,869	\$5,174
Permits - USPS	42%	\$151	72
Postal Machine Lease	100%	\$5,928	\$1,186
Software (Maintenance, Support & Purchase)	60%	\$24,821	\$8,274
Website Hosting, Design & Maintenance	100%	\$31,060	\$6,212
	Total	\$154,516	\$37,292

Facility Cleaning

SP Advisors allocated janitorial staff costs to the chart below containing charges related to cleaning the Theater. It might be cheaper for the SJ Rep to outsource all cleaning costs including janitorial staff to a local cleaning company.

Facility Cleaning											
Expense Category	%	FYE 2005		FYE 2006		FYE 2007		FYE 2008		FYE 2009	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Cleaning Service	100%	\$27,066	\$27,066	\$21,600	\$21,600	\$20,845	\$20,845	\$19,172	\$19,172	\$3,438	\$3,438
Janitorial Staff (payroll, taxes, and healthcare)	100%	\$51,050	\$51,050	\$70,718	\$70,718	\$70,713	\$70,713	\$76,586	\$76,586	\$65,667	\$65,667
Supplies: Toilet Paper/Towels & Cleaning Products	100%	\$13,418	\$13,418	\$10,862	\$10,862	\$9,492	\$9,492	\$7,568	\$7,568	\$6,565	\$6,565
Waste Removal - Garbage & Recycling*	100%	\$7,277	\$7,277	\$8,006	\$8,006	\$8,967	\$8,967	\$8,794	\$8,794	\$4,817	\$4,817
	Total	\$98,811	\$98,811	\$111,186	\$111,186	\$110,017	\$110,017	\$112,120	\$112,120	\$80,486	\$80,486

* We were only able to identify waste removal charges specifically for Stone Ave. in 2009, which was approximately \$2,500.
 Janitorial Staff was added to this section instead of to the Chart on Staff Necessary to Run Theater as these positions could be outsourced to a cleaning service.

The following chart shows the total facility cleaning line items totals for the five year period as well as provides the average cost for the period.

Facility Cleaning			
Expense Category	% Allocation	5 Years	
		Total Costs	Average
Cleaning Service	100%	\$92,121	\$18,424
Janitorial Staff (payroll, taxes, and healthcare)	100%	\$334,734	\$66,974
Supplies: Toilet Paper/Towels & Cleaning Products	100%	\$47,905	\$9,581
Waste Removal - Garbage & Recycling*	100%	\$37,860	\$7,572
Total		\$512,620	\$102,551

Box Office Expenses

The following section discusses box office expenses that are related to the facility's use as a theater.

The box office sells tickets to both SJ Rep productions and to productions and events hosted at the Theater by community groups that rent the facility.

General Information About Ticket Sales			
	FYE 2007	FYE 2008	FYE 2009
Subscriber Seats Sold	54,190	44,141	46,611
Single Tickets Sold	7,702	10,965	10,560
Discount Tickets Sold	11,039	9,583	17,929
Comp Tickets	5,054	6,765	8,334
Total tickets	77,985	71,454	83,434
Subscribers as % of Total	69%	62%	56%
Single tickets as a % of Total	31%	38%	44%
FYE 2009 had higher ticket sales due to Kite Runner and Putnam County Spelling Bee, plus bookings of Forbidden Broadway and Second City comedy troupe			
FYE 2008 includes single tickets for two week bookings of Wishful Drinking			

As we included janitorial staff in the Theater-related cleaning costs, we have included the box office staff in our calculations as well as their related insurance and payroll tax costs. We did not, however,

include 100 percent of the box office staff costs as their job responsibilities also include marketing, audience services charged to rental clients, and other tasks.

In order to determine what percentage of the box office staff costs should be allocated to the administrative expenses related to the Theater, we first reviewed all box office staff expenses by the GL accounts.

We grouped the box office payroll accounts for the FYEs 2007 to 2009 in the following chart. We also provided a total for the last three fiscal years as well as an average for the period.

Please note that telemarketing wages, commissions, payroll taxes and unemployment insurance are not included in any of the accounts listed in the chart below.

Box Office Payroll Expense							
GL Account Number	Account Description					3 Year Average	
		FYE 2007	FYE 2008	FYE 2009	Total	Average	
6110-000	Marketing payroll, including box office manager & assistant manager, group sales, public relations, on-staff website maintainer, marketing director	\$248,153	\$278,184	\$237,653	\$763,990	\$254,663	
6120-000	All marketing payroll taxes, except concessions	\$27,069	\$25,858	\$22,729	\$75,656	\$25,219	
6121-000	All marketing unemployment insurance expense	\$0	\$10,534	\$15,483	\$26,017	\$8,672	
6605-000	Audience services (box office staff)	\$52,630	\$48,349	\$47,798	\$148,777	\$49,592	
6605-888	Audience services re-charged to rental clients	\$643	\$43	-	\$686	\$229	
6650-000	Front of house (house managers who coordinate volunteer ushers)	\$8,582	\$11,537	\$11,709	\$31,828	\$10,609	
6860-000	Concessions payroll	\$11,303	\$12,414	\$12,843	\$36,560	\$12,187	
6865-000	Concessions payroll tax	\$1,015	\$950	\$986	\$2,951	\$984	
	Total	\$ 349,395	\$ 387,869	\$ 349,201	\$ 1,086,465	\$ 362,155	

Next we reviewed a time study of the Box Office Manager's time undertaken in December 2008 so we could determine what percentage of time was spent on tasks related to the Box Office so we could allocate the appropriate percentage of the time relative to expenses for the position within GL 6110-000.

Box Office Manager Time Study Done in December 2008		
	% Allocation for Box Office Expenses re Current Report	
	Total	Report
Customer Service	10%	10%
Internal Email, etc.	15%	0%
General Ticketing Projects	10%	10%
Reporting (Supplying Info)	5%	5%
Marquee Programming	5%	5%
Front of House Projects	10%	10%
Tessitura Projects	20%	10%
Will Call	10%	0%
Training Staff and Managing	10%	10%
Miscellaneous	5%	0%
Total	100%	60%

We then allocated 60 percent of the Box Office Manager's time to GL 6110-000 and also only included 50 percent of the time of the various Box Officers.

GL 6110-000 Pertaining to Managing Box Office Staff				
Position	Based on Budgeted Salary			
	% Allocation	FYE 2007	FYE 2008	FYE 2009
Box Office Manager	60%	19,790	24,581	24,461
Box Office Assistant Manager	100%	20,433	22,477	16,004
Box Officers	50%	28,058	28,058	20,265
House Manager	100%	24,981	21,338	29,977
Assistant House Managers	100%	13,943	13,943	16,034
Total		107,205	110,397	106,741
Costs based on Allocations Above				
FICA, Medicare & EET		8,212	8,456	8,176
Unemployment Tax		1,072	1,104	1,067
Workers Comp		4,288	4,416	4,270
Health insurance (Box Officer Manager only)		1,800	1,800	1,800
Total		15,372	15,776	15,313
Grand Total		122,578	126,173	122,054
<i>Note: 522 ushers also volunteered 32,764 hours of time.</i>				

Lastly, we added these staff expenses to other Box Office-related expenses.

The ticketing software and its related costs have not been fully allocated to the costs of managing the Theater as it is also used by the SJ Rep Development Department to track donors to the nonprofit.

The web hosting and email server costs have been fully allocated to the Theater because the cost is fixed regardless of how many tickets are sold through the system to SJ Rep productions or to events produced by local community arts groups.

Postage costs related to mailing tickets to patrons have been removed from the box-office related expenses. The majority of the supplies are related to special supplies needed for the printing of the tickets.

We have also included software used to track community volunteers who serve as ushers for productions and events held at the Theater.

Box Office-related Expenses							
Expense Category	% Allocation	FYE 2007		FYE 2008		FYE 2009	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Box Office Staff Salary	Various	\$348,380	\$107,205	\$376,385	\$110,397	\$332,732	\$106,741
Box Office Staff FICA, Medicare & EET, Unemployment tax, Workers Comp for all Box Office Staff and Health insurance for Box Office Manager	100% of Various Allocations	\$45,764	\$15,372	\$50,082	\$15,776	\$44,820	\$15,313
Box Office Supplies & Misc.	100%	\$12,710	\$12,710	\$130	\$130	\$3,876	\$3,876
Credit Card Processing for Ticket Purchases (Intrix Systems)	100%	\$399	\$399	\$348	\$348	\$484	\$484
System/Software for Ticketing & Development (Tessitura)	60%	\$23,024	\$13,814	\$22,280	\$13,368	\$20,316	\$12,189
Software for Volunteer Ushers (Volgistics)	100%	-	-	-	-	\$572	\$572
Web hosting/email server-related Expenses for Ticketing System (Tessitura)	100%	8,556.00	\$8,556	10,384	\$10,384	\$6,922	\$6,922
Total		\$438,833	\$158,057	\$459,609	\$150,403	\$409,722	\$146,098

The following chart contains the totals over three years.

Box Office-related Expenses				
Expense Category	% Allocation	Total Costs Over 3 Years	Total Eligible Costs Over 3 Years	3 Year Average of Eligible Costs
Box Office Staff Salary	Various	\$1,057,497	\$324,343	\$108,114
Box Office Staff FICA, Medicare & EET, Unemployment tax, Workers Comp for all Box Office Staff and Health insurance for Box Office Manager	100% of Various Allocations	\$140,666	\$46,461	\$15,487
Box Office Supplies & Misc.	100%	\$16,717	\$16,717	\$5,572
Credit Card Processing for Ticket Purchases (Intrix Systems)	100%	\$1,231	\$1,231	\$410
System/Software for Ticketing & Development (Tessitura)	60%	\$65,619	\$39,371	\$13,124
Software for Volunteer Ushers (Volgistics)	100%	\$572	\$572	\$191
Web hosting/email server-related Expenses for Ticketing System (Tessitura)	100%	\$25,862	\$25,862	\$8,621
Total		\$1,308,164	\$454,557	\$151,519

Utilities: Energy Consumption

Gas and electricity is provided by Pacific Gas & Electric Company (“PG&E”). Electricity is distributed throughout 101 Paseo de San Antonio by electric panels found on each floor. The Theater has three accounts with PG&E related to the Theater: gas service at a rate for small commercial customers; service specifically for the auxiliary fire pump; and its main account for electricity charged at the “A10SX Medium General Demand Metered Service” rate.

The San Jose Rep also incurs gas and electric utility charges for its Stone Avenue scene shop. As this property is used solely to create sets for its Theater productions, the costs related to this rented facility are not included in the expenses associated with operating and managing the Susan and Phil Hammer Theater. The energy costs for the apartments rented for visiting actors are included in their building’s monthly common area charges, which have been allocated to *Account 7170-000 – Actor Housing*.

The challenge in calculating the yearly gas and electric usage for the Theater is that the SJ Rep never had reason to separate utility expenses between the Theater and Stone Ave. As a result, none of the

GL energy-related entries for *Account 8550 - Building Operations Utilities* provided to SP Advisors identify which PG&E account incurred the charges, the building location for the energy usage, or even the type of energy used. Instead most descriptions for each debit and credit item note the service period covered by the invoice and the name of the payable. In most months the SJ Rep paid three invoices to PG&E.

Pacific Gas & Electric Company recently conducted an energy audit for the SJ Rep. It provided reports on gas and electricity consumption for each account for the period of August 1, 2008 to July 31, 2009, which is almost the period of the organization's 2009 fiscal year.

The charges for electricity provided the number of kilowatt hours for on-peak usage, part-peak usage, and off-peak usage. Information on the largest metered account for the Theater included allocated charges related to billing demand, created demand, on-peak demand, part-peak demand, and off-peak demand.

SP Advisors also contacted PG&E for the average price of gas and electricity for each of the past five years so that we could determine how much energy consumption was used for the Theater during each month. The goal was to overlay this information with the Theater's calendar of events (productions; rehearsals; rentals; and development-related dinners and events) so that a base energy cost could be allocated to programs, development, and running the facility without any activity. Unfortunately this proved impossible to do. PG&E has two consumption rates -- for spring and summer. It also has special methodology for determining baseline demand. In addition, demand is calculated by created demand as well as off-peak demand. Also the kwh charge is set at the first of the month and the SJ Rep's billing cycles cover two rate periods, which varies by account. Lastly, PG&E occasionally offers energy savings discounts and this information is based on consumption and not noted in the historical information. The task was onerous and even with PG&E's help; SP Advisors did not have confidence in the calculations.

Another challenge with calculating the energy consumption costs is the use of the Theater itself. Some days there might be an outside group that has rented the rehearsal space at the same time a SJ Rep production is in rehearsal in the theater. These events could be followed by an evening performance with a dinner in the Green Room hosted by the Development Department before the show. It is extremely difficult to calculate the energy consumption for each event. The outside temperature in San Jose also impacts air conditioning use.

As previously mentioned, SP Advisors removed the energy consumption costs for Stone Ave. The GL accounts for FYE 2009 noted which PG&E bill corresponded to which facility location and which account. By using this information and the PG&E energy audit, SP Advisors was able to allocate to the best of its ability the energy consumption for the Theater for the prior four fiscal years.

The 15 percent allocation reflects the percentage of the total utility charges allocated by the Auditor in the 2008 Statement of Functional Expenses to General and Administrative expenses. This would not include energy charges related to programs or fundraising.

Facility Utilities											
Expense Category	% Allocation	FYE 2005		FYE 2006		FYE 2007		FYE 2008		FYE 2009	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Electricity	15%	\$202,863	\$30,429	\$187,630	\$28,144	\$171,468	\$25,720	\$174,648	\$26,197	\$197,759	\$29,664
Gas	15%	\$25,931	\$3,890	\$21,777	\$3,267	\$13,735	\$2,060	\$15,286	\$2,293	\$14,272	\$2,141
Water	15%	\$7,914	\$1,187	\$7,314	\$1,097	\$6,991	\$1,049	\$6,318	\$948	\$7,693	\$1,154
Total		\$236,708	\$35,506	\$216,720	\$32,508	\$192,194	\$28,829	\$196,251	\$29,438	\$219,723	\$32,958

Total Utilities Costs for the Theater

Costs for telephone usage and the pay phone in the lobby have also been added to the line item for total Facilities. Breakouts of all of these costs are found in the following two charts.

Facility Utilities											
Expense Category	% Allocation	FYE 2005		FYE 2006		FYE 2007		FYE 2008		FYE 2009	
		All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible	All Costs	Total Eligible
Electricity	15%	\$202,863	\$30,429	\$187,630	\$28,144	\$171,468	\$25,720	\$174,648	\$26,197	\$197,759	\$29,664
Gas	15%	\$25,931	\$3,890	\$21,777	\$3,267	\$13,735	\$2,060	\$15,286	\$2,293	\$14,272	\$2,141
Telephone	100%	\$51,414	\$51,414	\$25,361	\$25,361	\$26,683	\$26,683	\$34,704	\$34,704	\$26,872	\$26,872
Telephone - Pay phone	100%	-	-	\$720	\$720	-	-	\$830	\$830	\$821	\$821
Telephone Equipment	100%	\$1,325	\$1,325	\$360	\$360	\$40	\$40	\$2,808	\$2,808	-	-
Water	15%	\$7,914	\$1,187	\$7,314	\$1,097	\$6,991	\$1,049	\$6,318	\$948	\$7,693	\$1,154
Total		\$289,447	\$88,245	\$243,162	\$58,950	\$218,917	\$55,552	\$234,593	\$67,779	\$247,417	\$60,651

Facility Utilities				
Expense Category	5 Years			
	Total Costs	% Allocation	Total Costs w/in % Allocation	Average
Electricity	\$934,367	15%	\$140,155	\$28,031
Gas	\$91,001	15%	\$13,650	\$2,730
Telephone	\$165,034	100%	\$165,034	\$33,007
Telephone - Pay phone	\$2,371	100%	\$2,371	\$474
Telephone Equipment	\$4,533	100%	\$4,533	\$907
Water	\$36,230	15%	\$5,434	\$1,087
Total	\$1,233,536	N.A.	\$331,177	\$66,235

Discussion of Expense Items from the SJ Rep Theater-related Charts

Insurance Costs

In FYE 2009 the descriptions for the GL entries for *Account 8575-000 Building/Operations Insurance & Legal Fees* made it easy to categorize the insurance costs by policy type. This was not true for the prior four fiscal years. As a consequence, SP Advisors did its best to allocate expenses to the appropriate category; however, we are not sure that the data contained in the chart below is 100 percent reliable for FYEs 2005 through 2008.

While we calculated the 5-year average costs by policy type and for total insurance cost, we feel it is prudent to only use the expense data for FYE 2009 when budgeting for FYEs 2010 to 2012. When forecasting future insurance costs, we keep the costs flat for FYE 2010 as insurance costs throughout the insurance industry appear to be flat this year over last. Budget allocations for FYEs 2011 and 2011 contain a slight increase.

SP Advisors excluded the cost for Directors and Officers Insurance in this category as the SJ Rep would incur this expense regardless of whether or not it was operating and managing the Theater as this is a standard nonprofit best practice. We also removed costs for Health, Dental, Vision, and Workman's Compensation from this section and added these costs to the specific staff functions we believe are necessary to maintain and operate the Theater for its intended use.

Earl Nunes of Composite Insurance Services of Marin, who provides policies throughout the Bay Area, helped SP Advisors calculate the average cost for Health, Dental, Vision, and Workman's Compensation policies in the Bay Area for small businesses with less than 50 employees that range in age from 20 to 60. These benefit costs, which averages \$573 per person a month or \$6,876 for a full year's coverage, were added to the salaries paid to staff positions SP Advisors believes are necessary to run the Theater. These costs are included in the chart called Staff Positions Necessary to Run the Theater and Related Salaries, Benefits & Expenses (Excluding Janitorial Staff).

Insurance Policies							Recommended
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	5 Year Average	Budget Allocation FYE 2010
Insurance - Accident	-	\$7,659	\$3,007	-	\$1,980	\$2,529	\$1,980
Insurance - Concessions/box office, Credit cards, & Cash	\$1,136	-	-	\$1,134	\$1,134	\$681	\$1,134
Insurance - General Liability	\$35,552	\$39,673	\$41,086	\$47,996	\$32,652	\$39,392	\$32,652
Insurance - Unknown Items	\$11,288	\$10,563	\$6,887	-	-	\$5,748	-
Total	\$47,976	\$57,895	\$50,980	\$49,130	\$35,766	\$48,349	\$35,766

We note that while we have grouped all of the insurance policies as a line item and for the purposes of negotiating with vendors, the insurance policy for the concessions, box office, credit cards, and cash is not a facility-related expense.

Permits

The Theater is required to have various local and state permits for occupancy and use by law. SP Advisors was not always able to distinguish the type of permit paid for in the GL accounts. The Stone Ave. scene shop also has permit requirements and these expenses were removed when identified, however, we are not certain that all were removed from the total expenses listed below.

Permits							Recommended
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	5 Year Average	Budget Allocation FYE 2010
Permits - ABC License	-	-	\$868	-	\$868	\$347	\$868
Permits - CA Dept. of Toxic Substance	\$150	-	\$300	-	\$315	\$153	\$315
Permits - Environmental Health	-	\$243	\$1,091	\$1,798	\$621	\$751	\$1,000
Permits - Fire	\$697	\$357	\$2,122	\$2,122	\$897	\$1,239	\$1,000
Permits - Unknown	\$462	-	-	\$376	\$406	\$249	-
Total	\$1,309	\$600	\$4,381	\$4,296	\$3,107	\$2,739	\$3,183

Website Design and Maintenance

Regardless of who is running the Susan and Phil Hammer Theater, a website providing the aforementioned items is a necessity in today's information age. While designing and maintaining a website is not related to a theater's bricks and mortar, it is a marketing requirement in the 21st Century for any theater or theater company expecting to notify the public of its productions, season, or events. It is also an important vehicle for selling individual seat tickets, season subscriptions, and group packages as well as providing information on the venue and rental information. As an example, Team San Jose/San Jose Convention & Visitors Bureau maintains a joint website with information on how to rent the following theaters: Montgomery, California, and the Center for the Performing Arts.

Many of the costs associated with maintaining a web site are fixed. As an example, there are no web host cost savings in having one web page versus twenty. We realize that much of the website design work is related to posting information on the SJ Rep's production season and ticket sales. However, the website also serves as a vehicle for members of the community to purchase tickets to productions or events held at the Theater. Other costs within the GL account are for internet access and for the costs associated with having a link within the site to a third-party ticket vendor located in Denver, Colorado. This is why we have included these costs in the administration and management of the Theater as they are not specifically related to the facility and the costs to operate the building.

Budgeting for Unknown Maintenance Items

After the construction of the Theater was completed, the City hired Aztec Consultants/MCE Corporation to inspect the facility monthly and report any equipment deficiencies so the identified items could be repaired or replaced. The costs for correcting the deficiencies were not provided in the reports nor were there any follow up reports written as to whether the items flagged were corrected. SP Advisors has made an assumption that there were no outstanding building maintenance and operations issues outstanding for the Theater prior to FYE 2005.

Recently the City hired VFMC to inspect the facility monthly and submit a report to the SJ Rep's Facility Manager on short-term maintenance items for corrective action. A Critical Equipment Assessment Guide was also provided so the consultant and the SJ Rep could review the mechanical and safety elements of the facility to determine the effectiveness of building operations and maintenance as well as fire and safety programs while conducting a visual walking inspection. SP Advisors was provided with a copy of the report following an inspection on March 18, 2009. As no major repair items were highlighted, SP Advisors is using the five-year cost average for most Theater operations and maintenance items for our draft budgets for the fiscal years 2010 through 2012.

Staffing Necessary to Run Theater

The Theater needs staff to run, operate, and manage the facility for its intended use as a live-performance repertory theater with a resident theater company and to make its rehearsal space and theater available to other community performance arts groups. Specifically, experienced and professional staff is required to operate the technical aspects of the backstage theater operations while additional staff needs to oversee its maintenance and repairs.

Following nonprofit "best practices", we have allocated staff time to operating and managing the Theater: administrative oversight; financial accounting; maintenance including cleaning and repairs; as well as positions required to run the technical parts of the facility so that it can be used as a Theater.

For the purposes of this study, we have allocated 100 percent of some positions to the cost of operating and managing the Theater. Our logic follows that key staff positions must be filled to keep the Theater's doors open no matter which entity or group is responsible for the theater's facility management and operations. Proper staffing keeps the Theater clean and ready for use by the community, manages the theater's finances, and pays its bills. Most importantly, staff provides the technical knowledge required to operate the soundboards, theatrical lights, rigging systems, and other technical and mechanical aspects of the theater.

We have also added the costs of benefits to salaries as well as taxes, which is explained in detail in the section on insurance costs. As the SJ Rep is also under union contract with the International Alliance of Theatrical Stage Employees for two positions, health and pension benefits are required to be paid on top of the guaranteed hourly wages for Master Electrician and the Stage Operations Manager.

As previously discussed, SP Advisors has added staff costs related to cleaning the facility and box office to the appropriate expenses category. When reviewing other Theater-related staff costs, it is also appropriate to categorize them into two groups: staff positions necessary to run the theater facility (including stage, sound, rigging systems, and the physical plant) and staff necessary to manage the facility. The latter includes a percentage of staff time whose functions also include executive oversight of the nonprofit organization as well as its administrative functions.

Staff Positions Necessary to Run Theatre Facility and Related Salary, Benefits & Expenses

Staff Position	% Allocation	FYE 2007 & FYE 2008		FYE 2009 Budget		FYE 2009 w/ 12.5% cut & FYE 2010 Budget	
		Annual Salary	Total Theater Related Plus PR Taxes	Annual Salary	Total Theater Related Plus PR Taxes	Annual Salary	Total Theater Related Plus PR Taxes
Assistant Production Manager/Theatre Plant Manager	75%	\$46,000	\$37,519	\$45,115	\$36,797	\$39,476	\$32,197
Associate Sound Designer/Engineer	100%	\$26,759	\$29,100	\$39,300	\$42,739	\$34,388	\$37,396
Master Electrician (Union)	100%	\$53,000	\$57,638	\$55,000	\$59,813	\$55,000	\$59,813
Office Systems Coordinator/IT	50%	\$40,000	\$21,750	\$45,246	\$24,603	\$39,590	\$21,527
Stage Operations Manager (Union)	100%	\$50,000	\$54,375	\$54,000	\$58,725	\$54,000	\$58,725
Estimated Health Insurance, Workman's Comp, Dental & Vision Insurance (Estimated for Non Union Positions) Based on Bay Area Average Healthcare Costs	Depends on % Allocation	\$15,471	\$16,825	\$15,471	\$16,825	\$15,471	\$16,825
Actual Flex Plan Pension & Tax Expenses for Union Positions in Chart (Actuals)	100%	\$28,760	\$31,276	\$16,350	\$17,781	\$16,350	\$17,781
Total		\$259,990	\$248,483	\$270,482	\$257,283	\$254,274	\$244,264

PR tax = .0765 FICA & Medicare ER contribution + .001% ETT + .01% SUI

Staff Positions Necessary to Manage Theatre Facility from an Administrative Perspective and Related Salary, Benefits & Expenses

Staff Position	% Allocation	FYE 2007 & FYE 2008		FYE 2009 Budget		FYE 2009 w/ 12.5% cut & FYE 2010 Budget	
		Annual Salary	Total Theater Related Plus PR Taxes	Annual Salary	Total Theater Related Plus PR Taxes	Annual Salary	Total Theater Related Plus PR Taxes
Controller (position added in FY2007)	30%	\$60,000	\$19,575	\$70,300	\$22,935	\$61,513	\$20,068
Director of Finance	5%	\$65,651	\$3,570	\$84,000	\$4,568	\$73,500	\$3,997
Managing Director	25%	\$120,000	\$32,625	\$128,000	\$34,800	\$112,000	\$30,450
Staff Accountant	15%	\$35,000	\$5,709	\$45,000	\$7,341	\$39,375	\$6,423
Estimated Health Insurance, Workman's Comp, Dental & Vision Insurance (Estimated for Non Union Positions) Based on Bay Area Average Healthcare Costs	Depends on % Allocation	\$5,157	\$5,608	\$5,157	\$5,608	\$5,157	\$5,608
Total		\$285,808	\$67,087	\$332,457	\$75,252	\$291,545	\$66,546

PR tax = .0765 FICA & Medicare ER contribution + .001% ETT + .01% SUI

SP Advisors consulted with senior management of the SJ Rep regarding staff time spent on managing and maintaining the building so it could be used as a theater. In the first chart, the Office Systems Coordinator/IT staff person's time was allocated to the facility at 50 percent since the sound and lighting systems require a great deal of tech support as well as software maintenance and upgrades. This is also true of the security system and other building-related systems.

Financial positions were added to the second chart as there is a great deal of accounting work related to the facility: managing the general ledger and paying facility-related bills. While all nonprofit organizations have to manage similar tasks, it is considered a best practice to allocate staff time amongst programs and by time spent on administrative work. The SJ Rep felt that the percentages shown in the chart represent time spent on managing the Theater facility.

Capitalizing Assets

Costs for Theater expenses in the charts presented in the prior section on Facility Operations, Facility Repairs & Supplies, and Facility's Intended Use Expenses for the FYEs 2005 through year to date 2009 did not include specific Theater-related assets acquired during the same time frame related to theater production equipment, furniture and fixtures inventory; or leasehold improvements being capitalized over their useful life.

The SJ Rep is calculating depreciation on a straight-line basis over the estimated useful lives of the assets, which are three years for furniture, fixtures and inventory; five years for production equipment; and 15 years for leasehold improvements or the useful life of the individual asset.

The 15 year time period used to depreciate a capital asset found in the SJ Rep's leasehold improvement *Accounts 1430 and 1435: Leasehold Improvements -- 101 Paseo de San Antonio* correlate to the terms of O&M Agreement, which grants the SJ Rep rent-free use of the City-owned Theater in exchange for the organization's obligation to operate and maintain the facility. While the O&M Agreement contains a provision allowing the SJ Rep to extend the term of the agreement for two additional terms of 10 years each, the building construction costs and facility assets listed within the accounts are not being depreciated over a period of up to 35 years. Instead, the SJ Rep has taken a conservative approach to depreciation accounting.

It is important to note that while the City owns the Theatre, Phase One and Phase Two construction costs (assets) are included in the SJ Rep's *Accounts 1430 and 1435: Leasehold Improvements -- 101 Paseo de San Antonio*. These assets were acquired by the SJ Rep so the interior of the building could be used as a live performance and rehearsal space specific to the requirements of the SJ Rep. As such, the SJ Rep purchased theatrical lighting, sound and rigging systems, production-related equipment, and décor and theater-style chairs for the auditorium and lobby. The total cost of leasehold improvements acquired since November 1999 totals approximately \$4.1 million.

Although construction on the building was completed in 1997, the Theater did not receive a certificate of occupancy until 1998, which is when the 15-year lease began. Assets listed in the leasehold improvements account date from 1997, which is when the SJ Rep took possession of the Theater. Needless to say, the SJ Rep's balance sheet will look very different beginning in November 2012.

Until FY 2009, the SJ Rep did not have an official policy on the capitalization of assets. The current policy, approved by the Board of Directors, is to capitalize assets that cost \$1,000 or more. Any asset that can be removed from the facility and taken by the SJ Rep if it vacates the Theatre is allocated by asset type to *Accounts 1410 and 1414: Furniture & Fixtures Inventory* or to *Accounts 1420 and 1425: Production Equipment*. A good example of how capital acquisitions are allocated is illustrated by the purchase of audio speakers. If the built-in speakers in the theatre are replaced, the asset will be allocated to the Leasehold Improvements accounts. If the speakers are for monitor production equipment, they are allocated to the Production Equipment depreciation accounts.

Acquisition of Theater Assets since FYE 2005

In the last five fiscal years, the SJ Rep acquired the following theater operations and maintenance-related assets. They have been classified using many of the same categories as the section on annual theater-related operations and maintenance expenses.

Acquired Assets (In Depreciation Schedules)						
	Useful Years	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Accounting Software	3	-	-	\$8,362	-	-
Alarm, Elevator, HVAC	3	-	-	-	-	\$3,079
Box Office Supplies & Misc.	3	-	-	-	-	\$2,440
Building Safety Systems & Security *	3 & 15	-	-	\$24,935	-	\$1,509
Credit Card Processing for Ticket Purchases (Intrix Systems)	3	-	-	-	\$1,874	-
Electrical & Lighting	5	-	-	\$1,777	\$3,712	\$1,355
Equipment & Tools	5	\$4,713	\$8,769	-	-	-
Piano	5	\$649	-	-	-	-
Sound Equipment & Related Software	5	\$6,381	\$2,716	-	-	\$1,638
System/Software for Ticketing & Development (Tessitura)	3	\$226,106	-	-	-	-
Technology & Servers	5	-	-	-	-	\$14,589
Total		\$237,849	\$11,484	\$35,075	\$5,586	\$24,610

** An emergency lighting system was to be depreciated over 15 years but it no longer works and is being written off after 2 years.*

SP Advisors does not know how the assets in the above chart were acquired. Were they purchased and paid in full at the time of purchase? Were they expensed over several months that might span two fiscal years or were they even donated? Therefore the values of the assets have not been added to the charts on the annual Theatre facility-related operations and maintenance operations and maintenance costs for the FYEs 2005 to 2009 year to date.

As stated in the previous section, SJ Rep practices accrual accounting and not the cash basis of accounting. Our list of annual operating and maintenance costs for the Theatre is really to be viewed from an operating budgeting standpoint. We made an assumption that all of the expenses in the charts in the previous section were accrued by the organization in the year the expense was incurred. Although it is tempting to add the annual costs in the chart “Acquired Assets (In Depreciation

Schedules)” to the matching categories in each year’s Theatre operating and maintenance costs, generally accepted accounting principles do not allow us to do so.

The SJ Rep is able to take an annual depreciation charge based on a schedule of all of the assets being depreciated over their estimated useful life. It calculates the depreciation charges monthly.

Depreciation Schedule					
	Period of Assets Acquired	Useful Years	Total Cost of Assets Acquired	Accumulated Depreciation as of 8/31/09	Net Value as of 8/31/09
Furniture & Fixtures Inventory	12/1/1999 - 8/31/2009	3 to 5 (depends on item)	\$398,538	\$379,817	\$18,721
Production Equipment	10/1/2000 - 8/31/2009	5	\$183,994	\$159,538	\$24,456

Depreciation Schedule					
	Period of Assets Acquired	Useful Years	Total Cost of Assets Acquired	Accumulated Depreciation as of 8/31/09	Net Value as of 8/31/09
Leasehold Improvements	11/1/1997 to 8/31/2009	15	\$4,140,650	\$3,047,924	\$1,092,726

SP Advisors has reviewed the depreciation charges listed in the Statement of Functional Expenses in the SJ Rep’s Audit for FYEs 2005 through FYE 2008. In last year’s audit, the Auditor allocated 70 percent of total depreciation expenses of \$353,915 to Production Costs or \$247,741, and \$53,087 or 15 percent of the total to General & Administrative, and another 15 percent to Fundraising. In prior years, the allocation has varied slightly: in FYEs 2005 and 2006 the allocation within Total Support was 24 percent to General & Administrative and 6 percent to Fundraising. In FYE 2007, 20 percent was allocated to General & Administrative while 10 percent was allocated to Fundraising. For future depreciation budgeting purposes, SP Advisors is using the Auditor’s allocation methodology from the FYE 2008 audit.

As all of the Production Equipment and Furniture & Fixtures assets are used by the theater staff for in-house productions and are made available to community groups renting the theatre, we have added the depreciation amount expensed to Productions to the depreciation amount allocated to General & Administrative for a total Theater-related depreciation expense in FYE 2008 of \$407,002. This follows the logic that SP Advisors has been using to allocate many theater-related operations and maintenance expenses.

We have calculated theater-related depreciation expenses from the last four audits.

Theater-related Depreciation of Assets from the Statement of Functional Expenses					
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	
	FYE 2005	FYE 2006	FYE 2007	FYE 2008	4-Year Average
Production Costs	\$330,462	\$263,575	\$254,153	\$247,741	\$273,983
General & Administrative	\$115,977	\$89,136	\$73,117	\$53,087	\$82,829
Total Theater-related Depreciation	\$446,439	\$352,711	\$327,270	\$300,828	\$356,812

Depreciation and Budgeting

Not all assets listed in the depreciation schedules will need to be replaced at the end of their “useful life” as determined by the asset class and the corresponding years used for the straight line depreciation schedule. Other assets, such as those that no longer work or are obsolete, will be written off sooner. Only some of these assets might need to be replaced.

From both a budgeting and cash flow perspective, the SJ Rep needs to plan for the replacement of valued assets. Depreciation expenses need to be added to the budget even though the latter expense is not a cash expense. Accrual accounting Statements of Cash Flows show the changes in net assets less depreciation and amortization, minus less in-kind rent expense plus changes in operating assets and liabilities for a total net cash used in operating activities. If depreciation hasn’t been added to the budget at year end, the organization will show a loss regardless of how well it met its income and expense goals. The SJ Rep has been following nonprofit best practices relating to the budgeting and has a line item for depreciation. It also has a line item for In Kind donations as the value of the asset or service is listed in income with an equal amount listed in expenses.

Budgeting for Replacement of Depreciating F&F and Production Assets

The annual acquisition value of furniture and fixtures assets over the approximately ten-year period from December 1999 to August 31, 2009 has been approximately \$39,000. The annual acquisition value of Production Equipment assets acquired over the last nine years has been almost \$21,000. Together, they total \$60,000, which is also the five year average of the theatre operations and maintenance assets

SP Advisors recommends the SJ Rep allocate approximately \$68,000 a year in its annual operating budget over the next three years to acquire new or upgraded electrical and lighting equipment, software upgrades for its accounting and ticketing systems, replacement parts for its alarm, elevator, and HVAC systems, and other production and building operations systems costs. We realize, however, that some of these items might be donated and not purchased by the SJ Rep. It would still be prudent to forecast for cash purchases and add this line item to future cash outflow projections.

SP Advisors recommends the SJ Rep continue its current practice of evaluating all of the assets in the three depreciation accounts annually to determine which items in the current schedule might need to be replaced in the near term. It also purchases new assets. While it makes sense to budget for an addition to capital assets of \$68,000 a year, the organization can reduce or increase this amount at its mid-year budget review. We also caution that these numbers are averages and the purchase of capital assets might be greater or less in any given year.

Budgeting for Leasehold Improvements

The SJ Rep's most valuable assets are in *Accounts 1430 and 1435: Leasehold Improvements -- 101 Paseo de San Antonio*. In FYE 2009 the depreciation expense related to these items totaled \$272,953.

Although accounting principles implies that all or some of these assets might need to be replaced and the end of their 15-year "useful life", an examination of the larger valued items shows this will probably not be the case.

Large Value Assets in Leasehold Improvements Accounts 1430 and 1435 - 101 Pases de San Antonio					
Acquired Date	Description	Cost (1430-000)	Useful Years	Accumulated Depreciation 8/31/2009	Remaining Value 8/31/2009
11/1/1997	BBI Engineering Sound/Video Equipment	\$363,893	15	\$287,193	\$76,700
11/1/1997	Broadmoor Electrical System	\$81,747	15	\$64,517	\$17,230
11/1/1997	Holsinger Theatre Seats	\$233,763	15	\$184,491	\$49,272
11/1/1997	Holt Hinshaw Architects Fees	\$141,553	15	\$110,866	\$30,686
11/1/1997	Musson Lighting System	\$196,599	15	\$155,160	\$41,438
11/1/1997	New Theatre Construction Costs	\$2,112,000	15	\$1,616,503	\$495,497
11/1/1997	Stage Trap Floor	\$9,796	15	\$6,645	\$3,151
11/1/1997	Stagecraft Rigging System	\$248,686	15	\$196,269	\$52,417
11/1/1997	Wallach Glass Donor Panels	\$18,919	15	\$14,827	\$4,092
11/1/1997	Western Appliance Dishwasher Plumbing	\$1,046	15	\$825	\$220
11/1/1997	Window Film	\$4,675	15	\$3,581	\$1,166
4/1/2001	Risers for Studio	\$20,781	15	\$11,668	\$9,113
8/1/2001	Protech Link Lift	\$280,718	15	\$151,357	\$129,361
8/1/2001	Motion Control	\$14,435	15	\$7,783	\$6,652
10/2/2002	Ball Construction Flooring	\$6,340	15	\$2,924	\$3,416
8/31/2009	Lobby Carpet	\$46,978	15	\$0	\$46,978
	Totals	\$3,781,928		\$2,814,609	\$967,391

As an example, the Musson Lighting System will not need to be replaced in November 2012. SJ Rep does maintain and repair the system. It also purchases light bulb and films and makes sure that the wiring is working and up to code. These expenses are charged to *Account 8585-000 Building Operations Maintenance -- General Lamps* and not to *Accounts 1430 and 1435: Leasehold Improvements -- 101 Paseo de San Antonio*. It is also not expected that all of the theater seats will need to be replaced, however, it is expected that the upholstery will need to be cleaned on a set schedule and there might be an occasion when the fabric will need to be replaced on a few chairs.

The value of the items in the chart above purchased since 2001 totals \$369,251 with a remaining value of \$195,520 as of August 31, 2009.

Looking at the list, one might reasonably expect the dishwasher to be replaced in the next three years. In the Bay Area a top of the line built in dishwasher could be purchased and delivered for approximately \$1,800. If the glass door panels are broken, they too might need to be replaced; and the cost could be double what was paid in 1997. The SJ Rep could conservatively add to the depreciation line item in the budget \$13,000 a year for these two items as well as \$10,000 a year for other unforeseen items.

The SJ Rep has identified several capital improvement projects that will need to be undertaken over the next three years. The Facility Manager has received bids for most of the work. The projects and the estimated cost are noted in the chart below. The SJ Rep provided guidance as to when the items would be purchased.

List of Potential Future Asset Acquisitions and Recommended Budget Year				
Description	Cost (1430-000)	FYE 2010 Budget	FYE 2011 Budget	FYE 2012 Budget
HVAC Control Interface	\$35,000			X
Building Safety System Upgrade	\$1,500	X		
Chair Lights (wiring and bulbs)	\$7,200	X		
Light Board Upgrade	\$45,000		X	
Emergency Lighting System for Auditorium	\$33,000	X		
Total	\$121,700	\$41,700	\$45,000	\$35,000

In summation, SP Advisors recommends adding the following totals for depreciation to the SJ Rep's budget for the fiscal years 2010 through 2012.

Budgeting for Depreciation			
	FYE 2010 Budget	FYE 2011 Budget	FYE 2012 Budget
Potential Leasehold Acquisitions	\$41,700	\$45,000	\$35,000
Potential Replacement of Leasehold Assets	\$23,000	\$23,000	\$23,000
Potential F&F and Production Assets	\$68,000	\$68,000	\$68,000
Approximate Annual Existing Depreciation Costs	\$287,716	\$287,716	\$287,716
Total	\$420,416	\$423,716	\$413,716

In-kind Rent Expense

The SJ Rep receives donated property and equipment and these items are all recorded as support at their estimated full value in Revenues and Support in the organization's Statement of Activities. The organization also includes a line item in its budget for the corresponding expense item called In-Kind Expense. As SP Advisors has not been focusing on the income side of the Statement of Activities and the corresponding expense item has not been noted in any of the GL accounts we have been reviewing, we recommend the SJ Rep continue its practice of budgeting \$50,000 annually for this expense line item.

The estimated "rent expense" is another In Kind expense the SJ Rep needs to account for in its annual budget for the promised use of the Theater. The audited statements provide information on how the theater asset has been recorded on the balance sheet and the corresponding accounting for the use of the facility in the Statement of Activities. Annually the SJ Rep records a rent expense of \$475,000 and SP Advisors has added this amount is to the projected annual expense budgets for the fiscal years 2010 through 2012. We have not included this line item in the annual costs to operate and manage the facility as we do not wish to imply that this is a cash expense since it is offset by the donated facility and as such is self cancelling to zero.

Projected Theater Budget for Fiscal Years 2010 to 2012

SP Advisors is proposed the following Theater-related facilities budget that includes both the City and SJ Rep's expenses for facility maintenance and operations. We have also provided the totals by category for the last five years as well as an average cost for the review period.

Although we have tried to keep expenses flat, when possible, we have also budgeted for a three percent increase in several categories to reflect increased in labor and material costs.

Proposed Theater-related Operations and Maintenance Expense Budgets for FYE 2010 to 2012					
Building Specific Expenses:	Total for FYEs 2005 to 2009	5 Year Average (3 Year when Appropriate)	FYE 2010 Budget	FYE 2011 Budget	FYE 2012 Budget
City of San Jose: Facility O & M Expenses	\$36,245	\$7,249	\$20,000	\$20,000	\$20,000
SJ Rep: Depreciation*	\$1,728,076	\$345,615	\$420,416	\$423,716	\$413,716
SJ Rep: Facility Cleaning	\$512,620	\$102,524	\$108,000	\$111,240	\$114,577
SJ Rep: Facility Maintenance & Operations	\$689,323	\$137,865	\$142,000	\$146,000	\$150,000
SJ Rep: Staff Necessary to Run Facility (3 Years of expenses, FYE 2007 - 2009, and 3 Year Average)	\$751,240	\$250,413	\$244,264	\$244,264	\$257,283
SJ Rep: Facility Utilities	\$331,177	\$66,235	\$68,000	\$70,000	\$72,100
Total	\$4,048,681	\$909,902	\$1,002,680	\$1,015,220	\$1,027,676
Administrative Expenses related to the Theater:					
SJ Rep: Box Office Expenses (3 Years of expenses, FYE 2007 - 2009, and 3 Year Average)	\$454,558	\$151,519	\$156,000	\$160,680	\$165,500
SJ Rep: Facility-related Administrative Expenses	\$154,253	\$30,851	\$35,000	\$36,000	\$37,000
SJ Rep: Staff Necessary to Manage Facility (Administrative) (3 Years of expenses, FYE 2007 - 2009, and 3 Year Average)	\$200,720	\$66,907	\$66,546	\$66,546	\$75,252
Total	\$809,531	\$249,277	\$257,546	\$263,226	\$277,752
Grand Total of Building Specific and Administrative Expenses related to the Management and Operations of the Theater	\$4,858,212	\$1,159,178	\$1,260,226	\$1,278,446	\$1,305,428
* We have not included Rent Expense of \$475,000 annually as it is a non cash item offset by the donated facility.					

Appendix

Great Plains Financial Accounting System
List of SJ Rep Chart of Accounts Examined for Debit and Credit Eligibility for Theater
Operations & Maintenance Expenses for the FYEs 2005 through 2009.

Total GL individual line items reviewed: 9,496

FYE 2005**2,505 General Ledger Line Items from the Following Accounts**

<u>Account:</u>	<u>Description:</u>
4310-025	Other Income - Handling - Facility Fee
4900-000	Contributed Revenue - Facility Project Funding
6575-000	Facilities
6605-000	Payroll - Audience Services
6610-000	Printing - Box Office Tickets
6620-000	Postage - Box Office
6630-000	Supplies - Box Office
6640-000	Supplies – Subscriptions
6645-000	Miscellaneous - Box Office
6680-000	Lobby Display - Box Office Services
6830-000	Supplies - Paper Products
6840-000	Supplies - Small Wares
6605-000	Payroll - Audience Services
6605-888	Audience Services – Rentals-
6610-000	Printing - Box Office Tickets
6620-000	Postage - Box Office
6630-000	Supplies - Box Office
6640-000	Supplies – Subscriptions
6645-000	Miscellaneous - Box Office
6650-000	Payroll - House Management
6680-000	Lobby Display - Box Office Services
6710-000	Inventory Purchases - Gift Shop
6720-000	Merchandising Supplies - Gift Shop
6721-000	Supplies - Gift Shop
6730-000	Marketing Expense - Gift Shop
6750-000	Postage - Gift Shop
6790-000	Payroll - Gift Shop
6795-000	Payroll Tax Expense - Gift Shop
6800-000	Concessions & Bar - Function Heading
6810-000	Inventory Purchases- Food - Concessions & Bar
6820-000	Inventory Purchases- Alcohol - Concessions & Bar
6830-000	Supplies - Paper Products
6840-000	Supplies - Small Wares
7165-777	Depreciation Expense Properties

7175-025	Garbage Pickup
7180-000	Rehearsal Hall Maintenance - Section Heading
8130-000	Insurance
8140-000	Contract Services
8150-000	Depreciation
8170-000	Office Equipment Rentals
8190-000	Telephone
8195-000	Website
8210-000	Utilities-Permits
8230-000	Office Improvements
8300-000	Operations Systems
8310-000	Software Maintenance
8340-000	Computer Supplies
8500-000	Building Operations – Cleaning Service
8510-000	Building Operations Payroll
8511-000	Facility Technical Payroll Expenses
8530-000	Building Operations Payroll Taxes
8531-000	Facilities/Production Taxes
8550-000	Building Operations Utilities
8560-000	Building Operations Stage Lamps
8561-000	Stage Electrics Maintenance & Repair
8565-000	Stage & Rigging Maintenance & Repairs
8566-000	Sound Equipment Maintenance & Repair
8570-000	Building Operations Contract Services
8575-000	Building/Operations Insurance & Legal Fees
8580-000	Building Operations Supplies
8585-000	Building Operations Maintenance – General Lamps
8595-000	Building Operations Repair Fund
8599-000	Building/Facility Depreciation Expense
8600-000	Building Maintenance – Stone Avenue

FYE 2006**1,995 General Ledger Line Items from the Following Accounts**

<u>Account:</u>	<u>Description:</u>
4310-025	Other Income - Handling - Facility Fee
4801-000	Additional Contribution Income-Use of Building
4900-000	Contributed Revenue - Facility Project Funding
6575-000	Facilities
6605-000	Payroll - Audience Services
6610-000	Printing - Box Office Tickets
6620-000	Postage - Box Office
6630-000	Supplies - Box Office
6670-000	Supplies - House Manager
6830-000	Supplies - Paper Products

6840-000	Supplies - Small Wares
7175-025	Garbage Pickup
8130-000	Insurance
8140-000	Contract Services
8150-000	Deprecation
8170-000	Office Equipment Rentals
8190-000	Telephone
8195-000	Website
8210-000	Utilities-Permits
8220-000	Staff Development
8310-000	Software Maintenance
8340-000	Computer Supplies
8500-000	Building Operations – Cleaning Service
8510-000	Building Operations Payroll
8511-000	Facility Technical Payroll Expense
8530-000	Building Operations Payroll Taxes
8531-000	Facilities/Production Taxes
8550-000	Building Operations Utilities
8555-000	Building Operations Transportation
8560-000	Building Operations Stage Lamps
8561-000	Stage Electrics Maintenance & Rep
8565-000	Stage & Rigging Maintenance & Repairs
8566-000	Sound Equipment Maintenance & Repair
8570-000	Building Operations Contract Services
8575-000	Building/Operations Insurance & Legal Fees
8580-000	Building Operations Supplies
8585-000	Building Operations Maintenance – General Lamps
8595-000	Building Operations Repair Fund
8600-000	Building Maintenance – Stone Avenue
8601-000	Rent Expense (Use of Building)
4315-888	Other Income - Facilities Labor
6215-888	Signs & Displays
6605-888	Audience Services - Rentals
7122-888	Wardrobe Payroll
7123-888	Electrics Payroll Overhire
7126-888	Sound Payroll Overhire
7128-888	Carpenter Payroll Overhire
7225-888	Stage Manager Supplies
7310-888	Set Materials
7330-888	Supplies - Scene Shop
7460-888	Costume Shop Transportation
8510-888	Facilities Rentals – Labor

FYE 2007**1,787 General Ledger Line Items from the Following Accounts**

<u>Account:</u>	<u>Description:</u>
4310-025	Other Income - Handling - Facility Fee
4801-000	Additional Contribution Income-Use of Building
4900-000	Contributed Revenue - Facility Project Funding
6575-000	Facilities
6605-000	Payroll - Audience Services
6610-000	Printing - Box Office Tickets
6620-000	Postage - Box Office
6645-000	Miscellaneous - Box Office
6670-000	Supplies - House Manager
6830-000	Supplies - Paper Products
6840-000	Supplies - Small Wares
7175-025	Garbage Pickup
8130-000	Insurance
8140-000	Contract Services
8150-000	Depreciation
8170-000	Office Equipment Rentals
8190-000	Telephone
8195-000	Website
8210-000	Utilities-Permits
8300-000	Operations Systems
8310-000	Software Maintenance
8340-000	Computer Supplies
8350-000	Printing
8450-000	Vehicle Maintenance
8500-000	Building Operations -- Cleaning Service
8510-000	Building Operations Payroll
8511-000	Facility Technical Payroll Expense
8530-000	Building Operations Payroll Taxes
8531-000	Facilities/Production Taxes
8550-000	Building Operations Utilities
8560-000	Building Operations Stage Lamps
8565-000	Stage & Rigging Maintenance & Repairs
8566-000	Sound Equipment Maintenance & Repair
8570-000	Building Operations Contract Services
8575-000	Building/Operations Insurance & Legal Fees
8580-000	Building Operations Supplies
8585-000	Building Operations Maintenance -- General Lamps
8595-000	Building Operations Repair Fund
8600-000	Building Maintenance – Stone Avenue
8601-000	Rent Expense (Use Of Building)
4315-888	Other Income - Facilities Labor
6605-888	Audience Services – Rentals

7121-888	Run Crew Payroll
7123-888	Electrics Payroll Overhire
7125-888	Hourly Production Staff Payroll
7126-888	Sound Payroll Overhire
7128-888	Carpenter Payroll Overhire
7310-888	Set Materials
7330-888	Supplies - Scene Shop
7510-888	Equipment & Materials - Lighting
8510-888	Facilities Rentals – Labor

FYE 2008**1,474 General Ledger Line Items from the Following Accounts**

<u>Account:</u>	<u>Description:</u>
4315-888	Other Income - Facilities Labor
4801-000	Additional Contribution Income-Use of Building
4891-000	Revenue released from restriction
4895-000	TR net assets released from restrictions - purpose
4895-095	Net Assets Released (Purpose) -Temp Restriction
4896-000	Revenue released from restrictions -building
4900-000	Contributed Revenue - Facility Project Funding
6575-000	Facilities
6605-000	Payroll - Audience Services
6605-888	Audience Services - Rentals
6620-000	Postage - Box Office
6645-000	Miscellaneous - Box Office
7116-888	Pension and Welfare
7123-888	Electrics Payroll Overhire
7125-888	Hourly Production Staff Payroll
7126-888	Sound Payroll Overhire
7128-888	Carpenter Payroll Overhire
7220-888	Actor / Crew Meals
7310-888	Set Materials
7620-888	Supplies - Sound
8130-000	Insurance
8140-000	Contract Services
8170-000	Office Equipment Rentals
8190-000	Telephone
8195-000	Website
8210-000	Utilities-Permits
8310-000	Software Maintenance
8340-000	Computer Supplies
8500-000	Building Operations -- Cleaning Service
8510-000	Building Operations Payroll
8511-000	Facility Technical Payroll Expense
8530-000	Building Operations Payroll Taxes

8531-000	Facilities/Production Taxes
8550-000	Building Operations Utilities
8555-000	Building Operations Transportation
8560-000	Building Operations Stage Lamps
8561-000	Stage Electrics Maintenance & Repair
8565-000	Stage & Rigging Maintenance & Repairs
8570-000	Building Operations Contract Services
8575-000	Building/Operations Insurance & Legal Fees
8580-000	Building Operations Supplies
8585-000	Building Operations Maintenance -- General Lamps
8593-000	Building Operations
8600-000	Building Maintenance – Stone Avenue
8601-000	Rent Expense (Use of Building)

FYE 2009**1,735 General Ledger Line Items from the Following Accounts**

Account:	Description:
1410-000	Furniture, Fixtures & Computer Equipment
1415-000	Accumulated Depreciation – Furniture Fixtures & Co.
1420-000	Production Equipment
1425-000	Accumulated Depreciation – Production Equipment
1430-000	Leasehold Improvements Theater
1435-000	Accumulated Amortization – LI - Theater
4310-025	Other Income - Handling - Facility Fee
4801-000	Additional Contribution Income-Use of Building
4896-000	Revenue released from restrictions -building
4900-000	Contributed Revenue - Facility Project Funding
6510-000	Website Design & Maintenance
6575-000	Facilities
6605-000	Payroll - Audience Services
6610-000	Printing - Box Office Tickets
6620-000	Postage - Box Office
6645-000	Miscellaneous - Box Office
6830-000	Supplies - Paper Products
8130-000	Insurance
8140-000	Contract Services
8150-000	Depreciation
8160-008	Facility Rental/Red Ladder
8170-000	Office Equipment Rentals
8190-000	Telephone
8195-000	Website
8210-000	Utilities-Permits
8310-000	Software Maintenance
8340-000	Computer Supplies
8500-000	Building Operations -- Cleaning Service

8510-000	Bldg Operations Payroll
8511-000	Facility Technical Payroll Expense
8530-000	Bldg Operations Payroll Taxes
8531-000	Facilities/Production Taxes
8550-000	Bldg Operations Utilities
8560-000	Bldg Operations Stage Lamps
8565-000	Stage & Rigging Maintenance & Repairs
8566-000	Sound Equipment Maintenance & Repair
8570-000	Bldg Operations Contract Services
8575-000	Building/Operations Insurance & Legal Fees
8580-000	Bldg Operations Supplies
8585-000	Building Operations Maintenance -- General Lamps
8593-000	Building Operations
8595-000	Building Operations Repair Fund
8600-000	Building Maintenance – Stone Avenue
8601-000	Rent Expense (Use of Building)
4315-888	Other Income - Facilities Labor
7116-888	Pension and Welfare
7123-888	Electrics Payroll Overhire
7125-888	Hourly Production Staff Payroll
7126-888	Sound Payroll Overhire
7128-888	Carpenter Payroll Overhire