ACCOUNTING + CONSULTING

SEGERSTROM CENTER FOR THE ARTS

Financial Statements
For Year Ended June 30, 2019

(With Independent Auditor's Report Thereon)

KSJGCPA.COM

T 949.261.2808 F 949.261.0188 • 100 SPECTRUM CENTER DRIVE, SUITE 1000, IRVINE, CALIFORNIA 92618

TABLE OF CONTENTS **PAGE NO.**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Segerstrom Center for the Arts

We have audited the accompanying financial statements of Segerstrom Center for the Arts (the Center), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

KSJGCPA.COM

T 949.261.2808 F 949.261.0188 • 100 SPECTRUM CENTER DRIVE, SUITE 1000, IRVINE, CALIFORNIA 92618

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KSJG, LLP

November 22, 2019

KSJG, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

SEGERSTROM CENTER FOR THE ARTS

Statement of Financial Position
June 30, 2019

ASSETS	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	2019 Total
	Operating	Facilities	Total		
Cash and cash equivalents	$ 6,651,138	$ 774,101	$ 7,425,239	$ 216,008	$ 7,641,247
Investments (Note 3)	12,849,239	133,164,106	146,013,345	64,495,882	210,509,227
Accounts receivable	739,257	--	739,257	--	739,257
Prepaid expenses	1,397,741	--	1,397,741	--	1,397,741
Contributions receivable, net (Note 4)	446,606	--	446,606	10,366,275	10,812,881
Beneficial interest in irrevocable deferred gifts (Note 3)	--	--	--	19,640,706	19,640,706
Fixed assets (Note 5)	--	206,820,488	206,820,488	--	206,820,488
Total assets	$ 22,083,981	$ 340,758,695	$ 362,842,676	$ 94,718,871	$ 457,561,547

(Statement of financial position continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Statement of Financial Position
(Continued)
June 30, 2019

LIABILITIES AND NET ASSETS	Net Assets Without Donor Restrictions: Operating	Net Assets Without Donor Restrictions: Facilities	Net Assets Without Donor Restrictions: Total	Net Assets With Donor Restriction	2019 Total
Accounts payable and accrued liabilities	$ (807,550)	$ 5,427,356	$ 4,619,806	$ --	$ 4,619,806
Bonds payable (Note 8)	--	153,108,110	153,108,110	--	153,108,110
Unamortized bond premium (Note 8)	--	24,852,670	24,852,670	--	24,852,670
Deferred revenue	15,254,134	--	15,254,134	--	15,254,134
Annuity payment liability	--	28,100	28,100	--	28,100
Total liabilities	14,446,584	183,416,236	197,862,820	--	197,862,820
Net assets:					
Net assets without donor restriction (Note 6)					
Undesignated	4,137,397	152,085,681	156,223,078	--	156,223,078
Designated for general reserves	3,500,000	--	3,500,000	--	3,500,000
Designated for building and information technology repairs	--	5,256,778	5,256,778	--	5,256,778
Total net assets without restriction	7,637,397	157,342,459	164,979,856	--	164,979,856
Net assets with donor restriction (Notes 6 and 7)					
Restricted for time	--	--	--	30,006,981	30,006,981
Restricted for time - endowment	--	--	--	24,026,046	24,026,046
Restricted in perpetuity	--	--	--	40,685,844	40,685,844
Total net assets with donor restriction	--	--	--	94,718,871	94,718,871
Total net assets	7,637,397	157,342,459	164,979,856	94,718,871	259,698,727
Total liabilities and net assets	$ 22,083,981	$ 340,758,695	$ 362,842,676	$ 94,718,871	$ 457,561,547

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Statement of Activities
Year Ended June 30, 2019

	Net Assets Without Donor Restriction			Net Assets With Donor Restriction	2019
	Operating	Facilities	Total		Total
Revenues and public support:					
Program revenues:					
Center presentations	$ 39,603,301	$ --	$ 39,603,301	$ --	$ 39,603,301
Hall rental operations	10,028,930	--	10,028,930	--	10,028,930
Education programs	1,664,517	--	1,664,517	--	1,664,517
	51,296,748	--	51,296,748	--	51,296,748
Other revenues:					
Endowment and other investment income	3,839,821	4,771,309	8,611,130	2,780,132	11,391,262
Transfers - repair reserve, endowment	450,000	(450,000)	--	--	--
	4,289,821	4,321,309	8,611,130	2,780,132	11,391,262
Public support:					
Contributions & special events	8,182,955	3,150,307	11,333,262	1,882,210	13,215,472
Contributed services and gifts in-kind	328,937	--	328,937	--	328,937
Change in value of irrevocable deferred gifts	--	--	--	1,882,395	1,882,395
Allowance for uncollectible contributions receivable	--	--	--	724,386	724,386
	8,511,892	3,150,307	11,662,199	4,488,991	16,151,190
Net assets released from restriction:					
Time restriction	1,511,384	6,666,770	8,178,154	(8,178,154)	--
Time restriction - endowment	--	2,550,000	2,550,000	(2,550,000)	--
	1,511,384	9,216,770	10,728,154	(10,728,154)	--
Total revenues and public support	$ 65,609,845	$ 16,688,386	$ 82,298,231	$ (3,459,031)	$ 78,839,200

(Statement of activities continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Statement of Activities
(Continued)
Year Ended June 30, 2019

	Net Assets Without Donor Restriction			Net Assets With Donor Restriction	2019 Total
	Operating	Facilities	Total		
Total revenues and public support	$ 65,609,845	$ 16,688,386	$ 82,298,231	$ (3,459,031)	$ 78,839,200
Expenses:					
Program services:					
Center presentations	40,495,556	4,583,014	45,078,570	--	45,078,570
Hall rental operations	9,252,107	4,702,719	13,954,826	--	13,954,826
Education programs	3,587,400	130,258	3,717,658	--	3,717,658
	53,335,063	9,415,991	62,751,054	--	62,751,054
Supporting services:					
Management and general	8,292,736	146,542	8,439,278	--	8,439,278
Fundraising	3,872,244	368,089	4,240,333	--	4,240,333
	12,164,980	514,631	12,679,611	--	12,679,611
Total expenses	65,500,043	9,930,622	75,430,665	--	75,430,665
Change in net assets	109,802	6,757,764	6,867,566	(3,459,031)	3,408,535
Net assets at beginning of year	7,527,595	150,584,695	158,112,290	98,177,902	256,290,192
Net assets at end of year	$ 7,637,397	$ 157,342,459	$ 164,979,856	$ 94,718,871	$ 259,698,727

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services				Supporting Services			
	Center Presentations	Hall Rental Operations	Education Programs	Subtotal	Management & General	Fundraising	Subtotal	Total Expenses
Salaries and benefits:								
Salaries and wages	$ 1,879,055	$ 1,955,752	$ 1,058,895	$ 4,893,702	$ 5,118,755	$ 1,484,487	$ 6,603,242	$ 11,496,944
Payroll taxes	134,005	139,474	77,091	350,570	339,344	105,562	444,906	795,476
Employee benefits	202,969	211,253	112,694	526,916	364,731	136,613	501,344	1,028,260
	2,216,029	2,306,479	1,248,680	5,771,188	5,822,830	1,726,662	7,549,492	13,320,680
Other:								
Advertising	4,228,599	--	222,610	4,451,209	13,622	53,805	67,427	4,518,636
Attraction share of receipts	--	3,209,223	--	3,209,223	--	--	--	3,209,223
Bond amortization	73,205	75,117	2,081	150,403	--	--	--	150,403
Bond interest and refinancing	1,890,740	1,940,125	53,739	3,884,604	--	--	--	3,884,604
Building & equipment maintenance	1,665,632	1,675,111	73,348	3,414,091	284,977	33,058	318,035	3,732,126
Depreciation	4,583,016	4,702,719	130,258	9,415,993	146,540	92,808	239,348	9,655,341
Donor cultivation and events	--	--	--	--	--	341,564	341,564	341,564
Information technology	--	--	--	--	612,895	--	612,895	612,895
Insurance	--	--	--	--	335,469	--	335,469	335,469
Meetings, conferences and travel	39,988	--	34,136	74,124	410,052	17,240	427,292	501,416
Miscellaneous	--	46,052	25,031	71,083	91,534	100,886	192,420	263,503
Postage & shipping	23,361	--	966	24,327	22,659	5,678	28,337	52,664
Printing & publication	8,426	--	358	8,784	17,344	19,936	37,280	46,064
Professional fees	13,384	--	14,454	27,838	521,005	29,331	550,336	578,174
Programming	30,309,685	--	1,901,281	32,210,966	--	--	--	32,210,966
Special events	--	--	--	--	--	1,607,273	1,607,273	1,607,273
Supplies	24,683	--	9,283	33,966	115,974	7,149	123,123	157,089
Telefunding & direct mail	--	--	--	--	--	204,543	204,543	204,543
Telephone	1,822	--	1,433	3,255	44,377	400	44,777	48,032
Total expenses	$ 45,078,570	$ 13,954,826	$ 3,717,658	$ 62,751,054	$ 8,439,278	$ 4,240,333	$ 12,679,611	$ 75,430,665

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:		
Changes in net assets	$	3,408,535
Adjustments to reconcile changes in net assets		
to net cash provided by operating activities:		
Depreciation		9,655,341
Amortization of bond issuance cost		150,403
Amortization of bond premium		(3,963,616)
Net unrealized loss on marketable securities		444,752
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		(311,735)
Prepaid expenses		316,191
Contributions receivable, net		5,863,573
Beneficial interest in irrevocable deferred gifts		(1,882,396)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities		178,191
Deferred revenue		(621,197)
Annuity payment liability		(7,691)
Net cash provided by operating activities		13,230,351
Cash flows from investing activities:		
Sales and maturities of investments		55,643,933
Purchases of investments		(69,926,864)
Purchases of fixed assets		(837,757)
Net cash (used in) investing activities		(15,120,688)
Net (decrease) in cash and cash equivalents		(1,890,337)
Cash and cash equivalents, beginning of year		9,531,584
Cash and cash equivalents, end of year	$	7,641,247
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	6,126,666

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Segerstrom Center for the Arts (the Center), which opened in 1986, is a non-profit charitable organization under section 501(c)(3) of the Internal Revenue Code organized for the purpose of developing and operating a major performing arts center in Orange County, California. The Center has various guilds and support groups throughout Orange County organized for fund-raising purposes. The accompanying financial statements include the accounts and activities of these groups.

Basis of Presentation - The financial statements of the Center have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which requires the Center to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restriction:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center's management and the board of directors.

- *Net assets with donor restriction:* Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Center records gifts of cash and other assets as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restriction. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as contributions without donor restrictions with the corresponding amount reclassified to net assets without donor restrictions in the accompanying statement of activities.

Endowment monies are identified in the accompanying financial statements as net assets with donor restriction both restricted in perpetuity, which includes donor-restricted contributions, and restricted for time, which includes unspent investment income on endowments.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued) - The Center's programs have been categorized as follows:

- *Center Presentations* - Performances of dance, Broadway musicals, jazz, classical, and other events presented directly by the Center in its various performance venues.

- *Hall Rental Operations* **-** The use of the theaters by outside organizations to present their own performances, including Pacific Chorale, Pacific Symphony, and Philharmonic Society of Orange County.

- *Education Programs* - The many arts education activities of the Center include: In-school Arts Teach and Arts Connect Programs, on stage events which bring children to Segerstrom Center for a performing arts experience, Summer at the Center for at-risk students, and participation in other countywide educational activities. Launched in September 2015, the American Ballet Theatre (ABT) William J. Gillespie Dance School is a new addition to the Center's education programs. The Center also commenced a series of Community Engagement activities in 2015 to deepen the relationship and involvement of the Orange County community, making a new school of dance and music for children with disabilities.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Center considers highly liquid investments and investments with original maturities of three months or less to be cash and cash equivalents. The Center places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Marketable Securities - The Center reports its investments in all debt securities and in equity securities with readily determinable market values at fair value, using quoted market prices. Investment income from endowments is reported as time-restricted income unless it is appropriated for expenditure, in which case it is recognized as income without donor restriction. Unrealized and realized gains or losses have been recorded as return on endowment and other investments in the statement of activities.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interest in Irrevocable Deferred Gifts - Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Center is also a beneficiary in certain trusts. The Center recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Center is beneficiary but is not the trustee. The present value discount on those future benefits is computed using the three-year U.S. Treasury note rate as of the balance sheet date (1.71% as of June 30, 2019). Changes in the present value discount amount and overall value of the Center's beneficial interest in these trusts are recognized in the statement of activities. When these gifts are revocable in nature, they are not reflected in the financial statements. The Center also recognizes as revenue the cash surrender value of the insurance policies for which the Center is the beneficiary.

Fixed Assets - Fixed assets are stated at cost and primarily represent expenditures associated with the construction of the Center. The building, equipment, and furniture are depreciated using the straight-line method over estimated useful lives of 3 to 40 years. Works of art have been capitalized at cost if purchased and their fair value at the date of donation if contributed. Works of art are considered inexhaustible and thus are not depreciated.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Contributed Services and Gifts In-Kind - Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time and services in the Center's fund-raising campaigns and other activities. Only those amounts that meet the criteria above are recorded in the accompanying financial statements.

The Center also has received donations of various noncash assets, such as legal fees, advertising, and merchandise that were used for purposes of operating activities. Contributed services and gifts in-kind in the amounts of $328,937 are recorded as income and expense in the statement of activities for the year ended June 30, 2019. Additionally, the Center received other noncash donations that would not ordinarily be purchased by the Center.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Box office receipts and theater rental income attributable to future events are included in cash and cash equivalents or investments and reflected as deferred revenue until the event has occurred, at which time the revenue will be earned.

Advertising Expenses - The Center pays for the advertising of Broadway shows and other presentations held at the Center in advance of the actual running of the event. These advanced payments are recorded as prepaid expenses on the Center's statement of financial position until the running of the show or presentation ends. At that point, the Center reclassifies the entire amount of prepaid advertising expenses related to that particular show or presentation as program expense in the Center's statement of activities. Total advertising expenses incurred during the fiscal year ended June 30, 2019 was $4,518,636.

Income Taxes - The Center is exempt from Federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of the California Revenue and Taxation Statute. However, the Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. As a matter of course, various taxing authorities, including the IRS, have the authority to regularly audit the Center. There were no tax years open to examination by major tax jurisdictions as of June 30, 2019. Management believes that the Center's tax positions comply with applicable tax law and has adequately provided for these matters.

The Center has adopted the provisions of the Accounting Standards Codification ("ASC") relating to accounting and reporting for uncertainty in income taxes. For the Center, these provisions could be applicable to the incurrence of any unrelated business income attributable to the Center. Because of the Center's general tax-exempt status, uncertain tax positions are not anticipated to have a material impact on the Center's financial statements.

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

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements - The carrying value of financial instruments in the financial statements approximates fair value.

On July 1, 2008, the Center adopted the Fair Value Measurements provisions of the ASC, for fair value measurements of financial assets and financial liabilities (Notes 3 and 4), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments and beneficial interest in irrevocable deferred gifts. The Center has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

The ASC establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Center's Level 1 assets include domestic equity mutual funds, international equity mutual funds and fixed income mutual funds.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Center's Level 2 assets include alternative investments.
- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Center's Level 3 assets include beneficial interest in irrevocable deferred gifts.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated using a specific methodology include the following:

Expense	Method of Allocation
Salaries & benefits	Time and effort
Bond interest & amortization	Square footage
Building & equipment maintenance	Square footage
Depreciation	Square footage
Other	Direct usage

Certain expenses reported on the accompanying statement of functional expenses, such as advertising, attraction share of receipts, information technology, insurance, professional fees, programming, special events, and other expenses have been allocated to programs based on direct usage. Certain costs split between the Center Presentations and Rental Hall Operations such as bond interest & amortization, building & equipment maintenance, and depreciation were allocated based on relative number of performances and rehearsals during the fiscal year.

Recent Accounting Pronouncements – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update is meant to simplify and improve how a not-for-profit organization classifies its net assets, presents its cash flows, and reports its investment returns. In addition, the update provides for enhanced disclosures about the liquidity and availability of an organization's assets, the classification of its expenses by both nature and function, and the methodology of allocating such expenses to programs and supporting services. The Center has adjusted the presentation of these financial statements accordingly.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers:* Topic 606. Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Topic 606 is effective for the Center's year ending June 30, 2020.

(Note 1 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)– In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU No. 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

ASU No. 2016-02 will be effective for the Center’s fiscal year ending June 30, 2021.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider’s obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome. ASU No. 2018-08 will be effective for the Center’s fiscal year ending June 30, 2020.

The Center is in the process of assessing the potential impact of the ASUs on its financial statements.

Subsequent Events - The Center evaluated subsequent events through November 22, 2019, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2 – AVAILABILITY AND LIQUIDITY

The Center receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions or in accordance with time restrictions related to irrevocable deferred gifts. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such gifts is used to fund programs and supporting services. Additionally, the Center receives revenues without donor restriction from entertainment and services provided to performing arts organizations and the general public.

The Center considers the aforementioned revenues and public support to be available to meet cash needs for all general expenditures. General expenditures include all programmatic and supporting service expenses that are expected to be paid in the subsequent year.

The Center manages its cash available to meet operating needs following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term financial sustainability strategic goals will be achieved.

To uphold these principals, the Center's Finance Committee meets on a periodic basis to provide strategic oversight of the Center's operating budget. In doing so, the Center strives to maintain financial assets available to meet current operating expenditures and to cover future obligations of fixed rate bonds issued by the Center. Additionally, the Board of Directors has designated certain assets as reserves for operations and maintenance of buildings and equipment that can be accessed in times of financial hardship or unbudgeted maintenance or repairs. The Board of Directors has also created a quasi-endowment, the earnings of which, in conjunction with the earnings from donor-restricted endowments, help fund the ongoing operations of the Center. The Center's investment policy includes an endowment spending rate up to 5 percent of the endowment funds' market value over a rolling twelve-quarter average. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

(Note 2 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 2 – AVAILABILITY AND LIQUIDITY (Continued)

The following table represents the Center's financial assets available for general expenditure within one year, as of June 30, 2019:

Financial assets at year end:		
Cash and equivalents	$	7,641,247
Investments		210,509,227
Accounts receivable		739,257
Contributions receivable		10,812,881
Beneficial interest in irrevocable deferred gifts		19,640,706
Total financial assets		249,343,318
Less financial assets not available for general expenditures within one year due to donor imposed restrictions:		
Restricted for time		(30,006,981)
Restricted for time - endowment		(24,026,046)
Restricted in perpetuity		(40,685,844)
		(94,718,871)
Less financial assets not available for general expenditures within one year due to internal designations:		
Designated for general reserves		(3,500,000)
Designated for building and information technology repairs		(5,256,778)
		(8,756,778)
Less financial assets earmarked to cover future obligations on fixed rate bonds		
Cash earmarked to facilties fund		(774,101)
Investments earmarked to facilities fund		(127,907,328)
		(128,681,429)
Financial assets available to meet general expenditures within one year	$	17,186,240

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 3 - ASSETS RECORDED AT FAIR VALUE

Investments as of June 30, 2019 consist of domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and alternative equity mutual funds.

The following table sets forth by level, within the fair value hierarchy, the Center’s assets at fair value as of June 30, 2019:

	Assets at Fair Value			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Domestic equity mutual funds	$ 74,312,098	$ --	$ --	$ 74,312,098
International equity mutual funds	45,684,771	--	--	45,684,771
Fixed income mutual funds	77,664,054	--	--	77,664,054
Alternative investments	--	12,848,304	--	12,848,304
	197,660,923	12,848,304	--	210,509,227
Irrevocable deferred gifts	--	--	19,640,706	19,640,706
Total	$ 197,660,923	$ 12,848,304	$ 19,640,706	$ 230,149,933

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Center’s Level 3 assets for the year ended June 30, 2019.

	Beneficial Interest in Irrevocable Deferred Gifts
Balance, beginning of year	$ 17,758,310
Contributions	450,000
Payments received	--
Write-offs	--
Unrealized gain	1,432,396
Balance, end of year	$ 19,640,706

(Note 3 continued on the following page)

NOTE 3 - ASSETS RECORDED AT FAIR VALUE (Continued)

Investment income for the year ended June 30, 2019 is summarized as follows:

Interest and dividend income	$	5,104,571
Investment fees		(204,717)
Realized and unrealized gains		6,491,408
	$	11,391,262

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. The Center has a reserve in its allowance for uncollectible accounts, 100% for all past due unconditional promises to give, and 10% of all unconditional promises to give expected to be collected in the future. Unconditional promises to give that are expected to be collected in future years are also recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the three-year U.S. Treasury note rate applicable in the year in which the promise was made. Amortization of the discount is included in contributions revenue, which was 1.71% for the year ended June 30, 2019.

Included in contributions receivable at June 30, 2019 are the following unconditional promises to give:

Amounts due in:		
Less than one year	$	6,899,784
One to five years		3,716,500
More than five years		2,160,000
Total promises to give		12,776,284
Less: allowance for uncollectibles		(1,185,468)
Less: unamortized discount		(777,935)
Net contributions receivable	$	10,812,881

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 5 - FIXED ASSETS

Fixed assets at June 30, 2019 consist of the following:

Land	$	10,605,607
Building - Theater I and II		305,664,924
Equipment and furniture		47,833,337
Fine arts		1,100,000
Total		365,203,868
Less: accumulated depreciation		(158,383,380)
	$	206,820,488

Depreciation expense totaled $9,655,341 for fiscal year ended June 30, 2019.

NOTE 6 - DESIGNATED NET ASSETS

The Center has designated funds for specific purposes which are presented in the accompanying statement of financial position as net assets without donor restriction.

Net assets designated for general reserves have been allocated to provide for extraordinary operational expenses when they occur. There were no additions to the reserve during fiscal year 2019.

Net assets designated for building and information technology repairs and replacement have been allocated to provide for long-term maintenance of the facility and replacement of theatrical and other equipment. Additions to the reserve totaled $2,195,557, including interest earned and unrealized gains on these funds of $95,557 during the year ended June 30, 2019. The reserve was reduced by $853,347 for capital improvements during the year ended June 30, 2019.

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 7 - ENDOWMENT

The Center has adopted the accounting standard for Endowments of Not-for-Profit Organizations. A key component of the accounting standard is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as net assets with donor restrictions in perpetuity as net assets with donor restrictions for purpose or time, until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Center.

The accounting standard provides guidance with respect to the accounting for donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which the State of California has enacted. In addition, the accounting standard requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the accounting standard, the Center has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar value of donor-restricted endowment contributions is reported as net assets with donor restrictions in perpetuity.

The Center's endowment consists of 30 individual funds.

Changes in Endowment Net Assets for the Year Ending June 30, 2019

	Without Donor Restriction	With Donor Restriction For Time	With Donor Restriction In Perpetuity	Total
Endowment net assets, July 1, 2018	$ --	$ 23,795,915	$ 40,448,879	$ 64,244,794
Support:				
Contributions	--	--	229,277	229,277
Gift annuity adjustment	--	--	7,688	7,688
Investment return:				
Investment income	--	1,260,096	--	1,260,096
Investment fees	--	(204,717)	--	(204,717)
Net appreciation (realized and unrealized)	--	1,724,752	--	1,724,752
Appropriation of endowment for expenditure	2,550,000	(2,550,000)	--	--
Expenditure of appropriated funds	(2,550,000)	--	--	(2,550,000)
	$ --	$ 24,026,046	$ 40,685,844	$ 64,711,890

(Note 7 continued on the following page)

NOTE 7 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that provides continued financial stability for the Center and a revenue stream for spending on the Center's mission. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that ensures safety through diversification while obtaining a competitive rate of return with the secondary objective to maintain liquidity. The Center expects its endowment funds over time, to provide an average rate of return of approximately 6 – 8% annually.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Center targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center's investment policy includes an endowment spending rate up to 5 percent of the endowment funds' market value over a rolling twelve-quarter average. This spending rate constitutes the Board's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the immediate spending of a portion of the income of the portfolio, provide a target rate of return for the Endowment Fund for the Center, and provide a sustainable spending level that will allow for support of the Center's initiatives in fulfilling its mission, while maintaining the purchasing power of the Endowment Fund's assets. During the year ended June 30, 2019, the endowment draw taken was $2,550,000, as reflected in the statement of activities. The endowment draw taken during the year ended June 30, 2019 was less than the allowable 5 percent rolling twelve-quarter average.

NOTE 8 - BONDS PAYABLE

Beginning in July 2004, the Center caused a series of tax-exempt bonds to be issued by the California Infrastructure and Economic Development Bank (the "I Bank").

The proceeds from the sale of these bond issues was loaned by the I Bank to the Center at an interest rate equal to the rate borne by the bonds and were used by the Center to finance the cost of construction and equipping of additional performance venues adjacent to its existing performing arts venues as well as the cost of the construction of a pedestrian plaza.

The original bond issues have been re-financed multiple times since 2004. The current outstanding bond issues are as follows:

> The Series 2016 ten-year fixed rate bonds issued in June 2016 ($42,000,000). The bonds were issued with a 5.00% coupon rate with a 2.07% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $11,072,460. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the ten-year life of the bond. The Series 2016 bond matures on July 1, 2026.
>
> The Series 2016 B seven-year fixed rate bonds issued in July 2016 ($48,000,000). The bonds were issued with a 5.00% coupon rate with a 1.56% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $10,752,480. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the seven- year life of the bond. The Series 2016 bond matures on July 1, 2023.
>
> The Series 2017 fixed rate bonds issued in December 2017 ($64,000,000). These bonds were issued with two maturity dates, seven and ten years. One half of the series, $32,000,000, has a 5.00% coupon rate with a 2.23% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $5,721,280. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the seven- year life of the bond. This portion of the Series 2017 bond matures on January 1, 2025. The second half, also $32,000,000, has a 5.00% coupon rate with a 2.56% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $6,855,040. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the ten- year life of the bond. This portion of the Series 2017 bond matures on January 1, 2028.

(Note 8 continued on the following page)

NOTE 8 - BONDS PAYABLE (Continued)

Under the terms of an agreement for the bonds payable, the Center is required to meet minimal levels of liquidity and debt service ratios. The Center was in compliance at June 30, 2019.

Amortization expense associated with the cost of issuing the above-mentioned bonds totaled $150,403 for the year ended June 30, 2019. During the year ended June 30, 2019, interest expense amounted to $3,884,604 and bond premium amortization amounted to $3,963,616 for the year ended June 30, 2019

The annual aggregate maturities of bonds payable are as follows:

Years ending June 30:	
2020	$ --
2021	--
2022	--
2023	--
2024	48,000,000
Thereafter	106,000,000
Less: deferred bond issuance costs	(891,890)
	$ 153,108,110

NOTE 9 - RETIREMENT PLAN

The Center has a defined contribution retirement plan (the Plan), available to substantially all of the non-union employees of the Center after they attain the service requirement of 1 year and 1,000 hours, which is determined as of June 30 and December 31. Once eligible, the Center may make discretionary and/or match participant contributions in amounts set by the Center. The employee's vested percentage in the Plan for each year of service is as follows:

Years of Service	Vested Percentage
2	20%
3	40%
4	60%
5	80%
6	100%

Costs of the retirement Plan are funded as they are incurred, and employer contributions to the Plan amounted to $208,459 during the year ended June 30, 2019.

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2019

NOTE 10 - LEASES

The Center has entered into various operating lease agreements for office equipment that provide for monthly rents ranging from $179 to $2,037 and expiring through May 2024. Future minimum lease payments under noncancelable operating leases as of June 30, 2019 are as follows:

Years ending June 30:		
2020	$	65,650
2021		59,549
2022		44,908
2023		23,414
2024		18,068
	$	211,589

Rent and equipment lease expense totaled $76,702 for the year ended June 30, 2019.

NOTE 11 - LITIGATION

The Center is also involved in other litigation arising in the normal course of its operations. Management, having consulted with its legal counsel, believes these matters will not, either individually or in aggregate, have any material adverse impact on its operating results or financial position.

NOTE 12 - CONCENTRATIONS OF LABOR SUBJECT TO COLLECTIVE BARGAINING AGREEMENT

Certain employees of the Center, stage employees, are subject to a collective bargaining agreement. Employees subject to the agreement approximate 35% of the Center's labor force. Although management has no indication of any work stoppages and believes any would be unlikely, any such labor disruption could cause a severe impact on the Center's operations. Additionally, under the Center's collective bargaining agreement, any work stoppages are prohibited for the term of the contract. The Center's collective bargaining agreement expired on June 30, 2017. The agreement was renegotiated effective July 1, 2017 and is set to expire in June 30, 2022.