

**CALIFORNIA CENTER FOR THE ARTS,
ESCONDIDO, FOUNDATION, INC.
AND
CALIFORNIA CENTER FOR THE ARTS,
ESCONDIDO, FOUNDATION CHARITABLE TRUST**

COMBINED FINANCIAL STATEMENTS

**FOR FISCAL YEAR ENDED JUNE 30, 2013
(With Summarized Financial Information for June 30, 2012)**

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ESCONDIDO, FOUNDATION, INC.
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YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
California Center for the Arts, Escondido, Foundation, Inc. and
California Center for the Arts, Escondido, Foundation Charitable Trust
Escondido, California

We have audited the accompanying combined financial statements of California Center for the Arts, Escondido, Foundation, Inc. (a nonprofit organization) and California Center for the Arts, Escondido, Foundation Charitable Trust (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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



Board of Trustees
California Center for the Arts
Escondido Foundation, Inc.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of California Center for the Arts, Escondido, Foundation, Inc. and California Center for the Arts, Escondido, Foundation Charitable Trust as of June 30, 2013, 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.

Report on Summarized Comparative Information

We have previously audited the 2012 combined financial statements, and our report dated June 25, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. Supplemental Information on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lance, Soll & Lughard, LLP

Brea, California
October 29, 2013

FINANCIAL STATEMENTS

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,024,813	\$ 850,336
Investments	747,945	713,751
Receivables:		
Accounts, net of allowance for doubtful accounts	63,954	90,177
Pledges	7,540	-
Prepaid costs	59,055	31,083
Inventories	22,844	17,719
Total Current Assets	<u>1,926,151</u>	<u>1,703,066</u>
Noncurrent:		
Contribution receivable - charitable remainder trust	108,453	108,456
Capital assets - net of accumulated depreciation	14,162	2,369
Total Noncurrent Assets	<u>122,615</u>	<u>110,825</u>
Total Assets	<u>\$ 2,048,766</u>	<u>\$ 1,813,891</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 75,847	\$ 180,686
Accrued expenses	91,220	72,897
Advance ticket sales and deposits	266,723	228,812
Unearned revenue	-	23,500
Accrued compensated absences	56,622	41,563
Total Current Liabilities	<u>490,412</u>	<u>547,458</u>
Total Liabilities	<u>490,412</u>	<u>547,458</u>
Net Assets:		
Unrestricted	1,360,598	1,001,245
Temporarily restricted net assets	153,761	221,193
Permanently restricted net assets	43,995	43,995
Total Net Assets	<u>1,558,354</u>	<u>1,266,433</u>
Total Liabilities and Net Assets	<u>\$ 2,048,766</u>	<u>\$ 1,813,891</u>

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINED STATEMENT OF ACTIVITIES

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
Operating Revenues:					
Ticket sales	\$ 133,709	\$ -	\$ -	\$ 133,709	\$ 72,955
Center sales - food and beverage, net	810,119	-	-	810,119	741,244
City of Escondido:					
Management fee	700,970	-	-	700,970	460,970
Occupancy	3,764,150	-	-	3,764,150	3,310,000
Utilities and long-distance telephone	539,027	-	-	539,027	400,461
Other contributions	-	-	-	-	28,990
Annual fund	431,439	89,300	-	520,739	500,946
Rentals - studio, theater and room, net	1,549,434	-	-	1,549,434	1,380,358
Investment income (loss)	69,555	-	-	69,555	(36,827)
Change in value of split-interest agreement	-	-	-	-	20,950
Government grants	238,625	-	-	238,625	259,942
In-kind Contributions	19,540	-	-	19,540	16,505
Miscellaneous, net	78,954	-	-	78,954	41,522
Net assets released from restrictions	156,732	(156,732)	-	-	-
Total Operating Revenues	8,492,254	(67,432)	-	8,424,822	7,198,016
Operating Expenses:					
Program Services					
Performing arts	1,847,359	-	-	1,847,359	1,227,465
Museum	198,651	-	-	198,651	40,829
Education	501,237	-	-	501,237	319,287
Center sales and event services	2,202,329	-	-	2,202,329	1,870,539
Total Program Services	4,749,576	-	-	4,749,576	3,458,120
Supporting Services					
Administration and finance	1,458,511	-	-	1,458,511	1,224,896
Development	591,103	-	-	591,103	533,581
Marketing	139,199	-	-	139,199	16,675
Technical	-	-	-	-	684,488
Operations	1,194,512	-	-	1,194,512	941,915
Total Supporting Services	3,383,325	-	-	3,383,325	3,401,555
Total Expenses	8,132,901	-	-	8,132,901	6,859,675
Increase (Decrease) In Net Assets	359,353	(67,432)	-	291,921	338,341
Beginning of Fiscal Year	1,001,245	221,193	43,995	1,266,433	1,198,092
Restatements	-	-	-	-	(270,000)
Beginning of Fiscal Year, as restated	1,001,245	221,193	43,995	1,266,433	928,092
End of Fiscal Year	\$ 1,360,598	\$ 153,761	\$ 43,995	\$ 1,558,354	\$ 1,266,433

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINED STATEMENT OF CASH FLOWS

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	2013	2012
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 291,921	\$ 338,341
Adjustment to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation expense	6,207	25,960
Interest and dividends on investments, net of fees		6,912
Net realized and unrealized (gains) losses on investments	(34,194)	36,827
Appreciation in Chartable Remainder Trust	3	(20,953)
(Increase) decrease in assets:		
Accounts receivable	26,223	8,622
Pledges receivable	(7,540)	100
Contributions receivable	-	232,000
Prepaid expenses	(27,972)	26,732
Inventory	(5,125)	6,965
Increase (decrease) in liabilities:		
Accounts payable	(104,839)	(38,820)
Accrued expenses	18,323	(1,263)
Advance ticket sales and deposits	37,911	(92,582)
Unearned revenue	(23,500)	(200,609)
Compensated absences	15,059	(13,620)
	192,477	314,612
Cash Flows From Capital and Financing Activities		
Proceeds from restricted investments	-	805
Purchase of property and equipment	(18,000)	-
	(18,000)	805
Net Increase (Decrease) in Cash and Cash Equivalents	174,477	315,417
Cash and Cash Equivalents, Beginning of Year	850,336	534,919
Cash and Cash Equivalents, End of Year	\$ 1,024,813	\$ 850,336

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

Nature of Activities

California Center for the Arts, Escondido, Foundation, Inc. (the Foundation) is the combined financial reporting entity for the California Center for the Arts, Escondido, Foundation Inc. (the Arts Center) and its supporting organization California Center for the Arts, Escondido, Foundation Charitable Trust (the Trust).

The Arts Center is a California nonprofit public benefit corporation established to foster development in the community for the performing arts, the visual arts and art education. Its activities include, but are not limited to, conference center activities and sponsoring professional presentations such as plays, theater, ballet, musical concerts, and other similar productions, as well as art or museum exhibits. The major sources of revenue for the Arts Center are ticket sales, food and beverage sales, a management fee from the City of Escondido, and donations.

The Trust is a California non-profit public benefit corporation established to support the Art Center's activities. It holds and receives titles to collectables displayed throughout the campus of the Art Center. In addition, it invests assets and distributes earnings from those assets to the Art Center for operating purposes.

Basis for Combination

The combined financial statements of the Foundation include the operations of the Art Center and the Trust.

Basis of Accounting

The combined financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Accounting for Endowment Funds

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205-45 *Donor Restricted Endowment Fund* requires net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and enhanced disclosures for all endowment funds.

The Foundation has interpreted the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies permanently restricted endowment net assets at the original value of the gift donated to the permanent endowment.

The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide acceptable long-term returns and protect the principal from inflation while assuming a moderate level of investment risk.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Board Designated Endowment

As of June 30, 2013, the Board of Trustees had designated \$773,066 of unrestricted net assets as a general endowment fund to support the programs and mission of the Foundation.

Since that amount resulted from an internal designation and is not donor restricted, it is classified and reported as board-designated unrestricted net assets.

Revenue Recognition

All contributions are considered available for the Foundation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increases unrestricted net assets.

Revenues from ticket sales are reflected in the accounting period in which the event occurs and netted for group discounts and membership discounts.

Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

Pledges receivable and charitable remainder trusts in the accompanying combined statement of financial position consist of unconditional promises to give, which are recorded at their net realizable value at the time the promises are received. These promises to give are reflected as either current or long-term receivables on the statement of financial position. With the exception of the charitable remainder trusts, all long-term receivables are expected to be collected within five years.

Contributed Materials, Services and Use of Facilities

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The Foundation received a substantial amount of services donated by volunteers in carrying out the Foundation's program services. No amounts have been recorded for those services, as they do not meet the requirements for recognition in the financial statements.

The financial statements reflect an estimate of the fair rental value of the facilities and equipment, including building maintenance expenses provided by the City of Escondido (City). The estimate of \$3,764,150 was determined by using the square footage of the facilities for the year ended June 30, 2013. The City also paid utilities and long distance telephone on behalf of the Foundation in the amount of \$539,027.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

FASB ASC 820 (formerly SFAS No. 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on accounts receivable using the allowance method. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Inventory

Inventory consists of food and beverage inventory for the conference center. Inventory is recorded at the lower of cost (first-in, first-out method) or market. Donated items are recorded at estimated fair market value at date of donation.

Property and Equipment

Acquisitions of property and equipment of \$5,000 or more are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Expenses for maintenance and repairs are charged against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of 3 to 10 years.

Collections

Collections consist of sculptures and other contemporary art pieces. Collections acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the combined statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the combined statement of activities based on the absence or existence and nature of donor-imposed restrictions

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Advertising

The Foundation uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2013, was \$22,857.

Unearned Revenue

Grant contributions received in advance for future events, and operating advances received from the City of Escondido are recorded as unearned revenue. Recognition as revenue occurs when the event takes place, or when the time period to which the advance applies occurs.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation may, however, be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2013, no provision for income taxes has been made.

FASB ASC No. 740 *Income Taxes* applies to not-for-profit Organizations because their financial statements contain assertions related to the Foundation's tax exempt status and determination of net earnings subject to unrelated business income tax. Should the Foundation lose its tax-exempt status, it could be subject to interest and penalties. No liability for unrecognized tax obligations was required. As of June 30, 2013, no interest or penalties have been recognized associated with any tax positions.

The Foundation's Form 990, *Return of Organization Exempt from Income Tax*, for the years beginning 2009, 2010, 2011, and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. Similarly, the Foundation's Form 199, *California Exempt Organization Annual Information Return*, for the tax years beginning 2008, 2009, 2010, 2011, and 2012 are subject to examination by the Franchise Tax Board, generally for four years after they were filed.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the combined statement of activities.

Net Assets

The Foundation reports the following classes of net assets:

Permanently restricted net assets – net assets that must be maintained by the Foundation in perpetuity. Permanently restricted net assets generally increase when the Foundation receives contributions with donor-imposed restrictions that do not expire with the passage of time and cannot be removed or fulfilled by the Foundation's actions.

Temporarily restricted net assets – net assets whose use is limited by either donor-imposed time restrictions or purpose restrictions. Time restrictions require resources to be used in a certain period or after a specified date. Purpose restrictions require resources to be used for a specified purpose.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Unrestricted net assets - net assets that are not subject to donor-imposed restrictions; including the carrying value of all physical properties (property and equipment). Items that affect this net asset category (i.e., increase or decrease) include revenue and related expenses associated with the core activities of the Foundation.

Use of Estimates

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

Summarized Information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's prior year financial statements, from which this selected financial data was derived. Some reclassifications have been made for comparability purposes.

Concentration of Credit Risk

The Foundation maintains cash balances at financial institutions located in California. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, the Foundation held cash in excess of federally insured limits.

The Foundation invests in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified. Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements

Date of Management's Review

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through September 18, 2013, the date the financial statements were available to be issued.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 2: Cash and Cash Equivalents

Cash and cash equivalents held by the Foundation are reported in the accompanying financial statements as follows at June 30, 2013:

Cash and cash equivalents	\$ 1,024,813
Total	<u>\$ 1,024,813</u>
Cash on hand	\$ 7,700
Deposits	991,992
Short-term investments	25,121
Total	<u>\$ 1,024,813</u>

Note 3: Investments

Investment securities are carried at fair value based on quoted prices in active markets (Level 1) and consist of the following at June 30, 2013:

	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks and equities	\$ 97,950	\$ 118,054
Corporate bonds	106,909	106,699
Real estate investment trusts	95,719	95,424
Mutual funds	392,558	427,768
Total	<u>\$ 693,136</u>	<u>\$ 747,945</u>

A summary of return on investments consisted of the following for the year ended June 30, 2013:

Interest	\$ 35
Dividends	18,178
Unrealized/Realized gains and losses	51,342
Total	<u>\$ 69,555</u>

Note 4: Accounts Receivable

Accounts receivable represent amounts due for conference center and theater rentals. Accounts receivable consisted of the following as of June 30, 2013:

Accounts receivable	\$ 79,654
Allowance for doubtful accounts	(15,700)
Total	<u>\$ 63,954</u>

Note 5: Inventory

Inventory consisted of Food and Beverages valued at \$22,844 as of June 30, 2013.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 6: Property and Equipment

Property and equipment consisted of the following at June 30, 2013:

Operating equipment/furniture	\$ 640,551
Tenant improvements	1,989
Total capital assets being depreciated	<u>642,540</u>
Less accumulated depreciation	<u>(628,378)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 14,162</u>

Depreciation expense for the year ended June 30, 2013 was \$6,207. During the year, the Foundation performed a physical inventory and determined that \$400,059 of property and equipment were no longer being utilized or obsolete, these assets had a net book value of \$0 as of June 30, 2013, and therefore the disposal of these assets had no effect on the financial statements at June 30, 2013.

Note 7: Endowment

The Foundation's endowment is held by the California Center for the Arts, Escondido, Foundation Charitable Trust (Trust) which was established on May 2, 2002, a 501(C)(3) Type III Supporting Organization. It was formed as a means of establishing a permanent endowment fund and to hold and administer certain other assets for the support and benefit of the Foundation in order to further the charitable, educational and artistic purposes of the Foundation. The Trust may support the benefit of the Foundation through grants and contributions to the Foundation. The Trust may also support and benefit the Foundation through the conducting or sponsorship of programs, events or activities which further the specified purposes of the Foundation.

The Foundation's endowment as of June 30, 2013, includes only funds designated by the Board of Directors as endowments; therefore they are reported as unrestricted.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The Foundation classifies as unrestricted net assets, those funds designated by the Board of Directors.

The Trust Agreement stipulates investment and distribution requirements for endowment assets that attempt to provide acceptable long-term returns and protect the principal from inflation while assuming a moderate level of investment risk. To satisfy its long-term objectives, a substantial portion of the endowment assets are invested with the equity mutual funds and marketable equity securities.

The Trust Agreement has a distribution policy of that cannot exceed the historic dollar value of the assets in the endowment fund (the dollar value of assets at the time of contribution or addition to the endowment fund). Distributions can be made for as much of the net income and appreciation of principal of the assets held in the endowment fund as requested by the Foundation in accordance with distribution requests submitted to the Trustee at the beginning of each fiscal year. If no distribution request is received by the Trustee by June 1 of each year, the Trustee shall distribute an amount equal to three percent (3%) of the fair market

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 7: Endowment (Continued)

value of the endowment fund. The payment shall be paid in four equal payments on the last day of the calendar quarter. The amount of unrestricted Board-designated endowment funds is \$773,066 as of June 30, 2013.

Changes in endowment net assets as of June 30, 2013, are as follows:

Endowment net assets, beginning of year	\$ 713,751
Investment return:	
Interest and dividend income	18,213
Advisory fees	(10,240)
Net appreciation (realized and unrealized)	<u>51,342</u>
Total investment return	<u>59,315</u>
 Total funds	 <u><u>\$ 773,066</u></u>

Note 8: Split-Interest Agreements

The Foundation has been named a remainder beneficiary of a charitable remainder unitrust, which was created in 1996, upon the death of the trust settlor. Two income beneficiaries are to receive, first from income and, to the extent that income is insufficient, from principal, a total annuity each year equal to the lesser of the trust income for the taxable year or 12% of the net fair market value of the trust assets determined annually on the valuation date of that taxable year, increased or decreased on a daily prorated basis during short taxable years and the last taxable year. Upon the death of each beneficiary, fifty percent of the remaining principal is to be distributed to the Foundation. A noncurrent asset for the charitable remainder unitrust has been recognized in the amount of \$43,995 as of June 30, 2013.

The Foundation has been named a beneficiary of a life insurance trust, which was created in 2001, upon the death of the trust settlor. During the lifetime of the settlor, the trustee is instructed to pay first from income and, to the extent that income is insufficient, from principal, all the premiums on any and all policies of life insurance on the life of the settlor. If any income remains after those withdrawals, the trustee shall pay or apply for the benefit of the settlor's living children during the lifetime of each of them as much of the net income of the trust as the trustee deems necessary to pay for the health, education, support, and maintenance of each of them. Upon the death of the settlor, the trustee will distribute the sum of \$100,000 or 3% of the value of the trust (whichever is greater) to the Foundation. A noncurrent asset for the charitable remainder unitrust has been recognized in the amount of \$64,461 as of June 30, 2013.

Note 9: Insurance and Contingencies

The Foundation is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which provides liability coverage to its members. The Foundation participated in the commercial general liability with coverage of \$2,000,000 per occurrence and a \$10,000 deductible.

The Board of Directors elects three members (including a President and Vice President) to the Executive Committee, which has the responsibility for overseeing all operations of

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 9: Insurance and Contingencies (Continued)

SANDPIPA, including preparation and submission of the annual operating budget to the Board of Directors for its approval and modification, if deemed necessary.

The Foundation purchased commercial property liability coverage in the amount of \$5,250,000 with a deductible of \$1,000 per occurrence. Additional coverage is included for accounts receivable in the amount of \$250,000, employee personal effects in the amount of \$50,000, fine arts in the amount of \$50,000, and legal liability in the amount of \$25,000. The Foundation purchased executive protection (Crime) liability, which included theft, forgery and fraud coverage, in the amount of \$500,000 per occurrence with a \$5,000 deductible.

The Foundation is subject to various claims that arise in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of legal counsel, the Foundation believes that the resolutions of these matters will not have a material adverse effect on the financial condition of the Foundation.

Note 10: Lease Commitments

The Foundation entered into several leasing agreements for various operating equipment; in addition, one-time agreements for the rental of space and equipment. Total expense for rental of space and equipment, under operating leases, was \$116,967, of which \$25,116 resulted from annual rental commitments. Future minimum annual rental commitments under non-cancelable operating terms as of June 30, 2013, are as follows:

<u>Year Ending</u>	<u>Amount</u>
2014	\$ 23,886
2015	21,000
2016	15,750
Total	<u>\$ 60,636</u>

Note 11: Economic Dependency

The Foundation is economically dependent on the City of Escondido (City) in addition to the contributed services and use of facilities described in Note 1. For the year ended June 30, 2013, revenue support from the City included a management fee of \$700,970.

In May 2010, the City and the Foundation entered into an amended occupancy license and management agreement. The revised agreement stipulates that the Foundation's assets and revenues are the assets and revenues of the City. The City will continue to pay for routine expenses related to the upkeep and maintenance of the Foundation; however it will no longer subsidize operating losses. Due to the change in the agreement, the City is no longer required to subsidize operating losses which may cause the Foundation's management to have difficulty paying its bills as they become due.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 12: Net Assets Released from Restrictions

Net assets were released from temporary donor or grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors or grantors as follows:

Satisfaction of program restrictions:

Community events	\$	100,082
Performing arts sponsorships		10,000
Education sponsorships		<u>46,650</u>
Total	\$	<u><u>156,732</u></u>

Note 13: Net Assets

Net assets as of June 30, 2013 were comprised of the following:

Unrestricted net assets:

Board-designated endowment	\$	773,066
Undesignated - available for programs		<u>587,532</u>
Total unrestricted net assets		<u>1,360,598</u>

Temporarily restricted net assets:

Time restrictions:		
Life Insurance Trust		<u>64,461</u>

Program and timing restrictions:

Performing arts sponsorships		<u>89,300</u>
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Total temporarily restricted net assets 153,761

Permanently restricted net assets:

Charitable Remainder Unitrust where principal is permanently restricted for the Foundation's endowment and all gains are restricted for acquisitions for the museum		<u>43,995</u>
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Total permanently restricted net assets 43,995

Total net assets \$ 1,558,354

Note 14: Change in Estimate

The Foundation accrued \$42,000 for the cancellation of its agreement with the Xerox Corporation. During the fiscal year, the Foundation reached an agreement with Xerox in the amount of \$20,000. Thus, the accrued estimate was removed to reflect the settlement.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 15: Contingencies

The Foundation is subject to claims and possible litigation incidental to its operations, including personal injury claims filed by visitors and employment-related claims filed by employees and former employees.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	California Center for the Arts, Escondido, Foundation	California Center for the Arts, Escondido, Foundation Charitable Trust	Combined 2013
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 999,692	\$ 25,121	\$ 1,024,813
Investments	-	747,945	747,945
Receivables:			
Accounts, net of allowance for doubtful accounts	63,954	-	63,954
Pledges	7,540	-	7,540
Prepaid costs	59,055	-	59,055
Inventories	22,844	-	22,844
Total Current Assets	1,153,085	773,066	1,926,151
Noncurrent:			
Contribution receivable - charitable remainder trust	108,453	-	108,453
Capital assets - net of accumulated depreciation	14,162	-	14,162
Total Noncurrent Assets	122,615	-	122,615
Total Assets	\$ 1,275,700	\$ 773,066	\$ 2,048,766
LIABILITIES AND NET ASSETS			
Liabilities:			
Current Liabilities:			
Accounts payable	\$ 75,847	\$ -	\$ 75,847
Accrued expenses	91,220	-	91,220
Advance ticket sales and deposits	266,723	-	266,723
Accrued compensated absences	56,622	-	56,622
Total Current Liabilities	490,412	-	490,412
Total Liabilities	490,412	-	490,412
Net Assets:			
Unrestricted	587,532	773,066	1,360,598
Temporarily restricted net assets	153,761	-	153,761
Permanently restricted net assets	43,995	-	43,995
Total Net Assets	785,288	773,066	1,558,354
Total Liabilities and Net Assets	\$ 1,275,700	\$ 773,066	\$ 2,048,766

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

**COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	California Center for the Arts, Escondido, Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:				
Ticket sales	\$ 133,709	\$ -	\$ -	\$ 133,709
Center sales - food and beverage, net	810,119	-	-	810,119
City of Escondido:				
Management fee	700,970	-	-	700,970
Occupancy	3,764,150	-	-	3,764,150
Utilities and long-distance telephone	539,027	-	-	539,027
Annual fund	431,439	89,300	-	520,739
Rentals - studio, theater and room, net	1,549,434	-	-	1,549,434
Investment income (loss)	-	-	-	-
Government grants	238,625	-	-	238,625
In-kind Contributions	19,540	-	-	19,540
Miscellaneous, net	78,954	-	-	78,954
Net assets released from restrictions	156,732	(156,732)	-	-
Total Operating Revenues	8,422,699	(67,432)	-	8,355,267
Operating Expenses:				
Program Services				
Performing arts	1,847,359	-	-	1,847,359
Museum	198,651	-	-	198,651
Education	501,237	-	-	501,237
Center sales and event services	2,202,329	-	-	2,202,329
Total Program Services	4,749,576	-	-	4,749,576
Supporting Services				
Administration and finance	1,448,271	-	-	1,448,271
Development	591,103	-	-	591,103
Marketing	139,199	-	-	139,199
Operations	1,194,512	-	-	1,194,512
Total Supporting Services	3,373,085	-	-	3,373,085
Total Expenses	8,122,661	-	-	8,122,661
Increase (Decrease) In Net Assets	300,038	(67,432)	-	232,606
Beginning of Fiscal Year	287,494	221,193	43,995	552,682
End of Fiscal Year	\$ 587,532	\$ 153,761	\$ 43,995	\$ 785,288

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

California Center for the Arts, Escondido, Foundation Charitable Trust		Combined Totals			
Unrestricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ -	\$ 133,709	\$ -	\$ -	\$ 133,709
-	-	810,119	-	-	810,119
-	-	700,970	-	-	700,970
-	-	3,764,150	-	-	3,764,150
-	-	539,027	-	-	539,027
-	-	431,439	89,300	-	520,739
-	-	1,549,434	-	-	1,549,434
69,555	69,555	69,555	-	-	69,555
-	-	238,625	-	-	238,625
-	-	19,540	-	-	19,540
-	-	78,954	-	-	78,954
-	-	156,732	(156,732)	-	-
69,555	69,555	8,492,254	(67,432)	-	8,424,822
-	-	1,847,359	-	-	1,847,359
-	-	198,651	-	-	198,651
-	-	501,237	-	-	501,237
-	-	2,202,329	-	-	2,202,329
-	-	4,749,576	-	-	4,749,576
10,240	10,240	1,458,511	-	-	1,458,511
-	-	591,103	-	-	591,103
-	-	139,199	-	-	139,199
-	-	1,194,512	-	-	1,194,512
10,240	10,240	3,383,325	-	-	3,383,325
10,240	10,240	8,132,901	-	-	8,132,901
59,315	59,315	359,353	(67,432)	-	291,921
713,751	713,751	1,001,245	221,193	43,995	1,266,433
\$ 773,066	\$ 773,066	\$ 1,360,598	\$ 153,761	\$ 43,995	\$ 1,558,354

SUPPLEMENTARY INFORMATION

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	Program Services				Total Program Services
	Performing Arts	Museum	Education	Center Sales and Event Services	
Salaries, payroll taxes, and employee benefits	\$ 605,607	\$ 24,192	\$ 125,533	\$ 754,007	\$ 1,509,339
Professional fees and artist contracts	74,919	12,517	57,965	2,272	147,673
Advertising	3,671	2,971	1,845	8,008	16,495
Occupancy cost	772,524	89,590	219,741	884,178	1,966,033
Utilities	-	14,565	35,577	141,704	191,846
Printing and publications	3,206	9,351	6,289	-	18,846
Cost of sales	702	1,453	-	199,353	201,508
Bank charges and credit card fees	43,180	30	-	10,670	53,880
Supplies	5,542	2,264	1,367	31,491	40,664
Program service expense	-	-	1,537	836	2,373
Interest expense	-	-	-	-	-
Postage and shipping	2,106	3,143	113	67	5,429
Depreciation and other charges	6,208	-	-	661	6,869
Contract services	36,848	2,430	4,844	25,490	69,612
Rental and maintenance of equipment	101,885	12,272	30,044	119,391	263,592
Telephone	125,919	-	-	2,735	128,654
Production expense	37,664	15,685	13,692	9,434	76,475
Installation	-	4,821	-	-	4,821
Small equipment purchases	13,459	232	1,205	2,688	17,584
Insurance	-	-	-	-	-
Travel, training, and artistic research	2,963	1,363	249	-	4,575
Recruitment	320	-	190	585	1,095
Graphics (signage)	27	1,542	76	-	1,645
Membership dues and subscriptions	213	-	844	-	1,057
Employee and volunteer relations	25	68	-	1,181	1,274
Taxes and licenses	11,101	55	-	5,608	16,764
Special and community events	900	-	50	-	950
Development	709	99	78	226	1,112
Bad debt expense	-	-	-	39	39
Miscellaneous	(2,339)	8	(2)	1,705	(628)
Total Expenses	\$ 1,847,359	\$ 198,651	\$ 501,237	\$ 2,202,329	\$ 4,749,576

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

JUNE, 30 2013

(With Summarized Financial Information for June 30, 2012)

Supporting Services							
Administrative and Finance	Development	Technical	Operations	Marketing	Total Supporting Services	2013	2012
\$ 424,312	\$ 238,803	\$ -	\$ 501,047	\$ 49,041	\$ 1,213,203	\$ 2,722,542	\$ 2,135,294
64,724	1,868	-	5,604	3,368	75,564	223,237	273,248
304	125	-	-	5,933	6,362	22,857	36,358
614,145	252,548	-	485,676	56,787	1,409,156	3,375,189	3,310,000
98,393	39,523	-	79,091	9,247	226,254	418,100	
1,055	6,896	-	-	92	8,043	26,889	9,566
13,049	740	-	-	-	13,789	215,297	206,520
17,104	-	-	-	-	17,104	70,984	51,725
6,858	2,910	-	34,481	262	44,511	85,175	57,860
-	-	-	-	-	-	2,373	1,105
14	-	-	-	-	14	14	2,974
1,893	3,608	-	2	25	5,528	10,957	8,906
-	-	-	-	-	-	6,869	25,960
34,379	2,890	-	6,678	500	44,447	114,059	98,256
82,899	33,299	-	72,625	8,074	196,897	460,489	101,313
608	94	-	-	-	702	129,356	402,482
31,460	745	-	-	-	32,205	108,680	92,594
-	-	-	-	-	-	4,821	-
(3,054)	-	-	8,343	-	5,289	22,873	3,869
17,363	-	-	-	-	17,363	17,363	-
20,765	1,090	-	-	53	21,908	26,483	10,233
5,778	70	-	420	35	6,303	7,398	1,895
-	54	-	-	5,767	5,821	7,466	485
1,165	3,474	-	-	-	4,639	5,696	3,096
365	15	-	(502)	-	(122)	1,152	2,179
890	25	-	900	-	1,815	18,579	20,035
40	137	-	-	-	177	1,127	76
503	2,189	-	152	15	2,859	3,971	-
26,087	-	-	-	-	26,087	26,126	-
(2,588)	-	-	(5)	-	(2,593)	(3,221)	952
<u>\$ 1,458,511</u>	<u>\$ 591,103</u>	<u>\$ -</u>	<u>\$ 1,194,512</u>	<u>\$ 139,199</u>	<u>\$ 3,383,325</u>	<u>\$ 8,132,901</u>	<u>\$ 6,856,981</u>

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.

OTHER INFORMATION
JUNE 30, 2013

	<u>2013</u>
Performing Arts	
Performing arts ticket sales	\$ 60,578
Patron user fees	21,777
Performing arts ticket services	<u>51,354</u>
Total Ticket Sales	<u>\$ 133,709</u>
Center Sales - Food and Beverage, Net	
Conference center	\$ 9,630
Theater concessions	<u>800,489</u>
Total Center Sales - Food and Beverage, Net	<u>\$ 810,119</u>
Rentals - Studio, Theater and Room, Net	
Theater rentals	\$ 50,025
Conference room and rental	178,785
Labor reimbursement	340,557
Space rental	31,768
Studio rental	408,214
Sale of services to rental clients	<u>540,085</u>
Total Rentals - Studio, Theater and Room, Net	<u>\$ 1,549,434</u>