



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

FOR FISCAL YEAR ENDED JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

COMBINED
FINANCIAL STATEMENTS

Focused
on YOU



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, 2018
(With Summarized Financial Information for June 30, 2017)

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ESCONDIDO, FOUNDATION, INC.
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COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the 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, 2018, 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.

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, 2018, 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.



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

Report on Summarized Comparative Information

We have previously audited the 2017 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 pages 23-24 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, Solt & Luyhard, LLP

Brea, California
December 17, 2018

FINANCIAL STATEMENTS

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

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,078,459	\$ 1,009,681
Investments	872,243	984,218
Receivables:		
Accounts, net of allowance for doubtful accounts	177,179	86,281
Pledges	68,200	-
Notes	10,711	-
Prepaid costs	136,774	79,608
Inventories	27,653	19,953
Total Current Assets	2,371,219	2,179,741
Noncurrent:		
Contribution receivable - charitable remainder trust	94,643	94,643
Capital assets - net of accumulated depreciation	146,335	86,723
Total Noncurrent Assets	240,978	181,366
Total Assets	\$ 2,612,197	\$ 2,361,107
LIABILITIES AND NET ASSETS		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 140,637	\$ 82,034
Accrued expenses	186,924	132,000
Advance ticket sales and deposits	713,163	639,953
Accrued compensated absences	42,553	25,694
Total Current Liabilities	1,083,277	879,681
Noncurrent:		
Accrued compensated absences	79,028	47,718
Total Noncurrent Liabilities	79,028	47,718
Total Liabilities	1,162,305	927,399
Net Assets:		
Unrestricted	1,296,250	1,233,265
Temporarily restricted net assets	130,067	176,868
Permanently restricted net assets	23,575	23,575
Total Net Assets	1,449,892	1,433,708
Total Liabilities and Net Assets	\$ 2,612,197	\$ 2,361,107

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

COMBINED STATEMENT OF ACTIVITIES

JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Revenues, gains, and other support					
Ticket sales	\$ 1,447,144	\$ -	\$ -	\$ 1,447,144	\$ 1,193,045
Center sales - food and beverage, net	1,297,281	-	-	1,297,281	1,194,218
City of Escondido:					
Management fee	740,235	-	-	740,235	725,720
Occupancy	4,129,370	-	-	4,129,370	4,015,370
Utilities and long-distance telephone	956,838	-	-	956,838	805,814
Annual fund	266,287	474,097	-	740,384	775,817
Rentals - studio, theater and room, net	1,916,511	-	-	1,916,511	1,889,545
Investment income (loss)	101,968	-	-	101,968	90,772
Government grants	-	73,663	-	73,663	40,900
In-kind contributions	-	-	-	-	4,370
Tuition, registration, field trips	53,544	-	-	53,544	40,633
Miscellaneous, net	134,794	-	-	134,794	164,442
Net assets released from restrictions	594,561	(594,561)	-	-	-
Total revenues, gains, and other support	11,638,533	(46,801)	-	11,591,732	10,940,646
Expenses:					
Program Services					
Performing arts	2,166,156	-	-	2,166,156	1,944,869
Museum	237,794	-	-	237,794	238,344
Education	704,465	-	-	704,465	621,050
Center sales and event services	3,043,855	-	-	3,043,855	2,955,880
Theater	1,520,096	-	-	1,520,096	1,280,292
Total Program Services	7,672,366	-	-	7,672,366	7,040,435
Supporting Services					
Administration and finance	1,526,905	-	-	1,526,905	1,307,688
Development	430,259	-	-	430,259	427,904
Marketing	434,907	-	-	434,907	393,465
Operations	1,511,111	-	-	1,511,111	1,452,658
Total Supporting Services	3,903,182	-	-	3,903,182	3,581,715
Total Expenses	11,575,548	-	-	11,575,548	10,622,150
Changes in net assets	62,985	(46,801)	-	16,184	318,496
Net Assets, Beginning of Fiscal Year	1,233,265	176,868	23,575	1,433,708	1,115,212
End of Fiscal Year	\$ 1,296,250	\$ 130,067	\$ 23,575	\$ 1,449,892	\$ 1,433,708

See Notes to Financial Statements
See Collections Disclosures in Note 1

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

COMBINED STATEMENT OF CASH FLOWS

JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

	2018	2017
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 16,184	\$ 318,496
Adjustment to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation expense	23,911	20,157
Net realized and unrealized (gains) losses on investments	111,975	(220,797)
Appreciation in Charitable Remainder Trust	-	(3,384)
(Increase) decrease in assets:		
Accounts receivable	(90,898)	(16,809)
Pledges receivable	(68,200)	15,000
Prepaid expenses	(57,166)	29,290
Inventory	(7,700)	1,215
Increase (decrease) in liabilities:		
Accounts payable	58,603	(23,875)
Accrued expenses	54,924	44,590
Advance ticket sales and deposits	73,210	42,425
Compensated absences	48,169	6
Net Cash Flows Provided by Operating Activities	152,301	206,314
Cash Flows From Capital and Financing Activities		
Purchase of property and equipment	(83,523)	-
Net Cash Flows Provided by Financing Activities	(83,523)	-
Net Increase (Decrease) in Cash and Cash Equivalents	68,778	206,314
Cash and Cash Equivalents, Beginning of Year	1,009,681	803,367
Cash and Cash Equivalents, End of Year	\$ 1,078,459	\$ 1,009,681

Schedule of Noncash Transactions:

Revenue and expense for occupancy and utilities/long-distance telephone in the amounts of \$4,129,370 and \$956,838, respectively, have been recorded in the financial statements at their estimated value. However, there are no cash flows associated with these transactions.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 Arts Center's activities. It holds and receives titles to collectables displayed throughout the campus of the Arts Center. In addition, it invests assets and distributes earnings from those assets to the Arts Center for operating purposes.

Basis for Combination

The combined financial statements of the Foundation include the operations of the Arts 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 (CONTINUED)
JUNE 30, 2018

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

Board Designated Endowment

As of June 30, 2018, the Board of Trustees had designated \$1,076,158 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 increase unrestricted net assets.

Revenues from ticket sales are reflected in the accounting period in which the event occurs and are 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 when 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 \$4,129,370 was determined by using the square footage of the facilities for the year ended June 30, 2018. The City also paid utilities and long-distance telephone on behalf of the Foundation in the amount of \$956,838.

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 (CONTINUED)
JUNE 30, 2018

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 20 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 (CONTINUED)
JUNE 30, 2018

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

The Foundation occasionally acquires and disposes of art objects in order to maintain a collection that best suits the museum's purpose. The Collections Committee reviews and approves art purchases and deaccessions. Members of the committee follow a conflict of interest policy. Objects in the collection shall be retained permanently in the Museum as long as they continue to serve the objectives and purposes of the Museum, and if the objects can be properly stored, preserved, and used.

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, 2018 was \$154,270.

Unearned Revenue

Ticket sales and conference center deposits 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, 2018, 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, 2018, 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 2014, 2015, 2016, and 2017 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 2013, 2014, 2015, 2016, and 2017 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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.

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.

Retirement Plan

The Foundation's employees are able to participate in a section 403(b) retirement savings plan. All contributions are made by the employees. The Foundation does not contribute.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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 December 17, 2018, the date the financial statements were available to be issued.

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, 2018:

Cash and cash equivalents	\$ 1,078,459
Total	<u>\$ 1,078,459</u>
Cash on hand	\$ 19,220
Deposits	855,324
Short-term investments	<u>203,915</u>
Total	<u>\$ 1,078,459</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, 2018:

	Cost	Fair Value
Corporate stocks and equities	\$ 663,582	\$ 830,089
Mutual funds	42,625	42,154
Total	<u>\$ 706,207</u>	<u>\$ 872,243</u>

A summary of return on investments consisted of the following for the year ended June 30, 2018:

Interest and dividends	\$ 15,820
Unrealized/Realized gains and losses	<u>85,099</u>
Subtotal	100,919
Other interest	<u>1,049</u>
Total investment income	<u>\$ 101,968</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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, 2018:

Accounts receivable	\$ 186,050
Allowance for doubtful accounts	(8,871)
Total	<u>\$ 177,179</u>

Note 5: Pledges Receivable

Pledges receivable of \$68,200 are due within one year.

Note 6: Inventory

Inventory consisted of Food and Beverages valued at \$27,653 as of June 30, 2018.

Note 7: Property and Equipment

Property and equipment consisted of the following at June 30, 2018:

Operating equipment/furniture	\$ 686,529
Tenant improvements	119,645
Computer software	12,050
Total capital assets being depreciated	<u>818,224</u>
Less accumulated depreciation	<u>(671,889)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 146,335</u>

Depreciation expense for the year ended June 30, 2018 was \$23,911.

Note 8: 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, 2018 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 those funds designated by the Board of Directors as unrestricted net assets.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8: Endowment (Continued)

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 equity mutual funds and marketable equity securities.

The Trust Agreement has a distribution policy whereby 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 and one-half percent (3 1/2%) of the fair market value of the endowment fund. The amount of unrestricted Board-designated endowment funds is \$1,076,158 as of June 30, 2018.

Changes in endowment net assets as of June 30, 2018, are as follows:

	For the Fiscal Year Ended June 30, 2018
	Unrestricted
Endowment net assets, beginning of year	\$ 996,524
Investment income	13,481
Investment fees	(14,088)
Net appreciation (realized and unrealized)	85,099
Contributions received	5,403
Contributions to Foundation	(10,261)
Endowment net assets, end of year	<u>\$ 1,076,158</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9: 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 \$23,575 as of June 30, 2018.

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 \$71,068 as of June 30, 2018. The value of the agreement has been discounted using a rate of 5%.

Note 10: Insurance and Contingencies

The Foundation purchased commercial general and automobile liability coverage in the amount of \$10,000,000 with a \$50,000 self-insured retention per occurrence. The Foundation also purchased employment practices liability coverage in the amount of \$2,000,000 per occurrence with a self-insured retention of \$10,000. The Foundation also purchased cyber liability coverage with an affected persons annual policy and program aggregate for all members combined limit of \$3,500,000 with a \$100,000 affected person limit and annual member aggregate and a \$10,000,000 annual policy and program aggregate for all members combined with a \$250,000 annual aggregate limit for each member. The cyber liability policy's self-insured retention amount is \$10,000. The Foundation also purchased workers compensation and employers liability insurance with a limit of \$1,000,000 per accident and per employee.

The City of Escondido owns the Foundation's buildings. Insurance for the buildings is obtained through the City's insurance coverage. The Foundation purchased personal property insurance which includes business income in the amount of \$7,099,027 with a deductible of \$2,500 and fine art insurance in the amount of \$750,000 per loss.

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 resolution of these matters will not have a material adverse effect on the financial condition of the Foundation.

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2018

Note 11: Lease Commitments

The Foundation entered into several leasing agreements for various operating equipment and one-time agreements for the rental of space and equipment. Total expense for the rental of space and equipment under operating leases for the year ended June 30, 2018 was \$175,716 of which \$83,302 resulted from annual rental commitments. For the year ended June 30, 2017 the amounts were \$136,395 and \$72,074. Future minimum annual rental commitments under non-cancelable operating terms as of June 30, 2018, are as follows:

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 36,442
2020	33,203
2021	<u>33,203</u>
Total	<u>\$ 102,848</u>

Note 12: 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, 2018, revenue support from the City included a management fee of \$740,235.

In October 2014, 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.

Note 13: Net Assets Released from Restrictions

Net assets 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	\$ 72,116
Performing arts sponsorships	70,658
Education sponsorships	146,130
Museum sponsorships	40,575
Development	223,382
Administration	<u>41,700</u>
Total	<u>\$ 594,561</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14: Net Assets

Net assets as of June 30, 2018, were comprised of the following:

Unrestricted net assets:	
Board-designated endowment	\$ 1,076,158
Undesignated - available for programs	<u>220,092</u>
Total unrestricted net assets	<u>1,296,250</u>
Temporarily restricted net assets:	
Time restrictions:	
Life Insurance Trust	71,068
Programming and timing restrictions:	
Performing arts	<u>58,999</u>
Total temporarily restricted net assets	<u>130,067</u>
Permanently restricted net assets:	
Charitable Remainder Unitrust where principal is permanently restricted for the Foundation's endowment and all gains are restricted for museum acquisitions	<u>23,575</u>
Total permanently restricted net assets	<u>23,575</u>
Total net assets	<u>\$ 1,449,892</u>

Note 15: Fundraising Costs

Total fundraising costs for the year were \$430,259.

Note 16: 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.

Note 17: Subsequent Event

Subsequent to the close of this financial reporting period, the City of Escondido approved a loan to the Foundation, per Resolution NO. 2018-146, in the amount \$261,500 for the purchase of sound system in the Concert Hall. The loan shall be repaid by the Foundation over 5 years, with monthly installments including principal and interest, with an interest rate of 2.598% and will begin to be repaid as of October 15, 2018.

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

COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	California Center for the Arts, Escondido, Foundation	California Center for the Arts, Escondido, Foundation Charitable Trust	Combined 2018
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 874,544	\$ 203,915	\$ 1,078,459
Investments	-	872,243	872,243
Receivables:			
Accounts, net of allowance for doubtful accounts	177,179	-	177,179
Pledges	68,200	-	68,200
Notes	10,711	-	10,711
Prepaid costs	136,774	-	136,774
Inventories	27,653	-	27,653
Total Current Assets	1,295,061	1,076,158	2,371,219
Noncurrent:			
Contribution receivable - charitable remainder trust	94,643	-	94,643
Capital assets - net of accumulated depreciation	146,335	-	146,335
Total Noncurrent Assets	240,978	-	240,978
Total Assets	\$ 1,536,039	\$ 1,076,158	\$ 2,612,197
LIABILITIES AND NET ASSETS			
Liabilities:			
Current Liabilities:			
Accounts payable	\$ 140,637	\$ -	\$ 140,637
Accrued expenses	186,924	-	186,924
Advance ticket sales and deposits	713,163	-	713,163
Accrued compensated absences	42,553	-	42,553
Total Current Liabilities	1,083,277	-	1,083,277
Noncurrent:			
Accrued compensated absences	79,028	-	79,028
Total Noncurrent Liabilities	79,028	-	79,028
Total Liabilities	1,162,305	-	1,162,305
Net Assets:			
Unrestricted	220,092	1,076,158	1,296,250
Temporarily restricted net assets	130,067	-	130,067
Permanently restricted net assets	23,575	-	23,575
Total Net Assets	373,734	1,076,158	1,449,892
Total Liabilities and Net Assets	\$ 1,536,039	\$ 1,076,158	\$ 2,612,197

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

COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	California Center for the Arts, Escondido, Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:				
Ticket sales	\$ 1,447,144	\$ -	\$ -	\$ 1,447,144
Center sales - food and beverage, net	1,297,281	-	-	1,297,281
City of Escondido:				
Management fee	740,235	-	-	740,235
Occupancy	4,129,370	-	-	4,129,370
Utilities and long-distance telephone	956,838	-	-	956,838
Annual fund	260,884	474,097	-	734,981
Rentals - studio, theater and room, net	1,916,511	-	-	1,916,511
Investment income (loss)	3,388	-	-	3,388
Government grants	-	73,663	-	73,663
In-kind Contributions	-	-	-	-
Tuition, registration, field trips	53,544	-	-	53,544
Miscellaneous, net	134,794	-	-	134,794
Assets transferred to endowment pursuant to governing board action	10,261	-	-	10,261
Net assets released from restrictions	594,561	(594,561)	-	-
Total Operating Revenues	11,544,811	(46,801)	-	11,498,010
Operating Expenses:				
Program Services				
Performing arts	2,166,156	-	-	2,166,156
Museum	237,794	-	-	237,794
Education	704,465	-	-	704,465
Center sales and event services	3,043,855	-	-	3,043,855
Theater	1,520,096	-	-	1,520,096
Total Program Services	7,672,366	-	-	7,672,366
Supporting Services				
Administration and finance	1,512,817	-	-	1,512,817
Development	430,259	-	-	430,259
Marketing	434,907	-	-	434,907
Operations	1,511,111	-	-	1,511,111
Total Supporting Services	3,889,094	-	-	3,889,094
Total Expenses	11,561,460	-	-	11,561,460
Changes in net assets	(16,649)	(46,801)	-	(63,450)
Beginning of Fiscal Year	236,741	176,868	23,575	437,184
End of Fiscal Year	\$ 220,092	\$ 130,067	\$ 23,575	\$ 373,734

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

COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	California Center for the Arts, Escondido, Foundation Charitable Trust	
	Unrestricted	Total
Operating Revenues:		
Ticket sales	\$ -	\$ -
Center sales - food and beverage, net	-	-
City of Escondido:		
Management fee	-	-
Occupancy	-	-
Utilities and long-distance telephone	-	-
Annual fund	5,403	5,403
Rentals - studio, theater and room, net	-	-
Investment income (loss)	98,580	98,580
Government grants	-	-
In-kind Contributions	-	-
Tuition, registration, field trips	-	-
Miscellaneous, net	-	-
Assets transferred to endowment pursuant to governing board action	(10,261)	(10,261)
Net assets released from restrictions	-	-
Total Operating Revenues	93,722	93,722
Operating Expenses:		
Program Services		
Performing arts	-	-
Museum	-	-
Education	-	-
Center sales and event services	-	-
Theater	-	-
Total Program Services	-	-
Supporting Services		
Administration and finance	14,088	14,088
Development	-	-
Marketing	-	-
Operations	-	-
Total Supporting Services	14,088	14,088
Total Expenses	14,088	14,088
Changes in net assets	79,634	79,634
Beginning of Fiscal Year	996,524	996,524
End of Fiscal Year	\$ 1,076,158	\$ 1,076,158

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

COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Combined Totals			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Revenues:				
Ticket sales	\$ 1,447,144	\$ -	\$ -	\$ 1,447,144
Center sales - food and beverage, net	1,297,281	-	-	1,297,281
City of Escondido:				
Management fee	740,235	-	-	740,235
Occupancy	4,129,370	-	-	4,129,370
Utilities and long-distance telephone	956,838	-	-	956,838
Annual fund	266,287	474,097	-	740,384
Rentals - studio, theater and room, net	1,916,511	-	-	1,916,511
Investment income (loss)	101,968	-	-	101,968
Government grants	-	73,663	-	73,663
In-kind Contributions	-	-	-	-
Tuition, registration, field trips	53,544	-	-	53,544
Miscellaneous, net	134,794	-	-	134,794
Assets transferred to endowment pursuant to governing board action	-	-	-	-
Net assets released from restrictions	594,561	(594,561)	-	-
Total Operating Revenues	11,638,533	(46,801)	-	11,591,732
Operating Expenses:				
Program Services				
Performing arts	2,166,156	-	-	2,166,156
Museum	237,794	-	-	237,794
Education	704,465	-	-	704,465
Center sales and event services	3,043,855	-	-	3,043,855
Theater	1,520,096	-	-	1,520,096
Total Program Services	7,672,366	-	-	7,672,366
Supporting Services				
Administration and finance	1,526,905	-	-	1,526,905
Development	430,259	-	-	430,259
Marketing	434,907	-	-	434,907
Operations	1,511,111	-	-	1,511,111
Total Supporting Services	3,903,182	-	-	3,903,182
Total Expenses	11,575,548	-	-	11,575,548
Changes in net assets	62,985	(46,801)	-	16,184
Beginning of Fiscal Year	1,233,265	176,868	23,575	1,433,708
End of Fiscal Year	\$ 1,296,250	\$ 130,067	\$ 23,575	\$ 1,449,892

SUPPLEMENTARY INFORMATION

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

COMBINING STATEMENT OF FUNCTIONAL EXPENSES

JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

	Program Services					
	Performing Arts	Museum	Education	Center Sales and Event Services	Theater	Total Program Services
Salaries, payroll taxes, and employee benefits	\$ 41,571	\$ 84,066	\$ 228,597	\$ 942,770	\$ 1,087,298	\$ 2,384,302
Professional fees and artist contracts	677,011	15,160	10,835	6,558	43,510	753,074
Advertising	107,470	10,039	6	8,401	12,797	138,713
Occupancy cost	902,833	41,476	311,314	1,075,450	36,220	2,367,293
Utilities	230,553	11,185	83,338	280,158	-	605,234
Printing and publications	-	7,579	2,688	-	-	10,267
Cost of sales	-	1,618	-	310,268	41,690	353,576
Bank charges and credit card fees	66	352	-	36,229	61,900	98,547
Supplies	-	837	1,596	83,091	23,800	109,324
Program service expense	230	-	619	-	-	849
Interest expense	-	-	-	27	-	27
Postage and shipping	274	4,187	438	39	1,037	5,975
Depreciation and other charges	-	-	-	4,010	13,620	17,630
Contract services	18,365	13,028	1,287	69,089	50,896	152,665
Rental and maintenance of equipment	140,083	7,397	50,635	178,343	1,917	378,375
Telephone	-	-	-	15,746	-	15,746
Computer expense	-	-	171	428	2,151	2,750
Production expense	33,523	8,364	8,152	110	32,059	82,208
Installation	-	24,533	-	-	-	24,533
Small equipment purchases	1,064	1,022	-	883	30,113	33,082
Travel, training, and artistic research	433	880	3,528	319	8,411	13,571
Recruitment	-	85	960	1,595	896	3,536
Graphics (signage)	-	2,346	-	57	-	2,403
Membership dues and subscriptions	-	330	-	-	157	487
Employee and volunteer relations	-	-	-	4,913	787	5,700
Taxes and licenses	-	-	-	11,504	26,576	38,080
Special and community events	-	-	-	-	-	-
Development	500	1,306	158	132	2,305	4,401
Tessitura	-	-	-	10,591	32,407	42,998
Bad debt expense	1,804	-	-	7,316	5,512	14,632
Miscellaneous	10,376	2,004	143	(4,172)	4,037	12,388
Total Expenses - Foundation	\$ 2,166,156	\$ 237,794	\$ 704,465	\$ 3,043,855	\$ 1,520,096	\$ 7,672,366

Charitable Trust - Endowment - Investment fees

Total Expenses - Combined

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

COMBINING STATEMENT OF FUNCTIONAL EXPENSES

JUNE 30, 2018

(With Summarized Financial Information for June 30, 2017)

Supporting Services						
Administrative and Finance	Development	Operations	Marketing	Total Supporting Services	2018	2017
\$ 525,226	\$ 164,160	\$ 403,559	\$ 185,876	\$ 1,278,821	\$ 3,663,123	\$ 3,393,167
29,464	15,619	4,415	6,735	56,233	809,307	682,936
318	812	-	14,427	15,557	154,270	151,146
581,157	140,498	546,719	119,295	1,387,669	3,754,962	3,622,862
134,102	37,890	147,441	32,172	351,605	956,839	805,816
1,176	983	-	1,852	4,011	14,278	7,043
-	-	-	-	-	353,576	343,309
2,682	406	-	-	3,088	101,635	90,939
12,598	2,070	38,189	11,603	64,460	173,784	151,394
-	-	-	-	-	849	16,570
7,945	-	20	818	8,783	8,810	-
5,145	6,624	-	1,890	13,659	19,634	21,686
81	-	-	6,200	6,281	23,911	20,157
53,069	425	263,642	2,413	319,549	472,214	337,046
81,654	23,022	101,019	24,749	230,444	608,819	548,432
19	-	-	-	19	15,765	11,120
6,816	-	525	5,672	13,013	15,763	12,675
59,483	288	-	-	59,771	141,979	119,835
-	-	-	-	-	24,533	13,066
4,547	-	3,549	1,899	9,995	43,077	48,756
1,215	2,041	-	66	3,322	16,893	16,139
807	-	389	170	1,366	4,902	4,000
29	70	-	565	664	3,067	1,094
1,143	4,749	-	732	6,624	7,111	9,345
3,465	(29)	1,557	-	4,993	10,693	8,964
4,677	690	-	-	5,367	43,447	34,886
40	8,218	-	-	8,258	8,258	10,760
4,113	8,108	67	3,883	16,171	20,572	10,173
2,258	13,615	-	12,605	28,478	71,476	50,542
(11,022)	-	-	-	(11,022)	3,610	57,346
610	-	20	1,285	1,915	14,303	9,580
<u>\$ 1,512,817</u>	<u>\$ 430,259</u>	<u>\$ 1,511,111</u>	<u>\$ 434,907</u>	<u>\$ 3,889,094</u>	11,561,460	10,610,784
					14,088	11,366
					<u>\$ 11,575,548</u>	<u>\$ 10,622,150</u>

CALIFORNIA CENTER FOR THE ARTS, ESCONDIDO, FOUNDATION, INC.**OTHER INFORMATION
JUNE 30, 2018**

	<u>2018</u>
Performing Arts	
Performing arts ticket sales	\$ 1,129,417
Patron user fees and memberships	114,955
Performing arts ticket services	<u>202,772</u>
Total Ticket Sales	<u><u>\$ 1,447,144</u></u>
Center Sales - Food and Beverage, Net	
Merchandise	\$ 11,644
Theater concessions and conference center	<u>1,285,637</u>
Total Center Sales - Food and Beverage, Net	<u><u>\$ 1,297,281</u></u>
Rentals - Studio, Theater and Room, Net	
Theater rentals	\$ 89,075
Conference hall	238,095
Labor reimbursement and BMI licensing fees	591,960
Cell tower rental	36,828
Studio and conference center rental	420,800
Sale of services to rental clients	<u>539,753</u>
Total Rentals - Studio, Theater and Room, Net	<u><u>\$ 1,916,511</u></u>