

SEGERSTROM CENTER FOR THE ARTS
Financial Statements
June 30, 2023
With Summarized Comparative Information
As of and for the Year Ended June 30, 2022
With Independent Auditor's Reports

Segerstrom Center for the Arts

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June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Seegerstrom Center for the Arts:

Opinion

We have audited the financial statements of Seegerstrom Center for the Arts (the "Center"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Center's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in the report dated November 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Withum Smith + Brown, PC

November 16, 2023

**Segerstrom Center for the Arts
Statements of Financial Position
June 30, 2023**

With Summarized Comparative Information as of June 30, 2022

| | <u>Net Assets Without Donor Restrictions</u> | | | <u>Net Assets</u> | <u>Total</u> | |
|--|--|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| | <u>Operating</u> | <u>Facilities</u> | <u>Total</u> | <u>With Donor Restrictions</u> | <u>2023</u> | <u>2022</u> |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 15,205,584 | \$ 952,040 | \$ 16,157,624 | \$ 792,590 | \$ 16,950,214 | \$ 12,874,704 |
| Investments | 17,850,571 | 149,704,937 | 167,555,508 | 128,272,687 | 295,828,195 | 269,234,775 |
| Accounts receivable | 792,629 | 872,622 | 1,665,251 | - | 1,665,251 | 1,113,531 |
| Prepaid expenses | 1,397,039 | - | 1,397,039 | - | 1,397,039 | 745,583 |
| Contributions receivable, net | 303,039 | - | 303,039 | 4,703,376 | 5,006,415 | 4,971,788 |
| Employee retention credit receivable | 1,036,213 | - | 1,036,213 | - | 1,036,213 | 2,895,050 |
| Beneficial interest in irrevocable deferred gifts | - | - | - | 12,872,740 | 12,872,740 | 18,960,964 |
| Property and equipment, net | <u>-</u> | <u>177,155,730</u> | <u>177,155,730</u> | <u>-</u> | <u>177,155,730</u> | <u>182,417,193</u> |
| Total assets | <u>\$ 36,585,075</u> | <u>\$ 328,685,329</u> | <u>\$ 365,270,404</u> | <u>\$ 146,641,393</u> | <u>\$ 511,911,797</u> | <u>\$ 493,213,588</u> |

The Notes to Financial Statements are an integral part of these statements.

**Segerstrom Center for the Arts
Statements of Financial Position
June 30, 2023**

With Summarized Comparative Information as of June 30, 2022

| | <u>Net Assets Without Donor Restrictions</u> | | | <u>Net Assets</u> | <u>Total</u> | |
|---|--|-----------------------|-----------------------|--|-----------------------|-----------------------|
| | <u>Operating</u> | <u>Facilities</u> | <u>Total</u> | <u>With Donor</u> <u>Restrictions</u> | <u>2023</u> | <u>2022</u> |
| Liabilities and Net Assets | | | | | | |
| Accounts payable and accrued liabilities | \$ 6,013,668 | \$ - | \$ 6,013,668 | \$ - | \$ 6,013,668 | \$ 3,808,142 |
| Bonds payable, net | - | 147,502,817 | 147,502,817 | - | 147,502,817 | 153,554,427 |
| Unamortized bond premium | - | 14,132,877 | 14,132,877 | - | 14,132,877 | 12,457,834 |
| Deferred revenue | 19,670,234 | 760,803 | 20,431,037 | - | 20,431,037 | 22,165,460 |
| Annuity payment liability | - | - | - | - | - | 4,722 |
| Total liabilities | <u>25,683,902</u> | <u>162,396,497</u> | <u>188,080,399</u> | <u>-</u> | <u>188,080,399</u> | <u>191,990,585</u> |
| Net assets | | | | | | |
| Net assets without donor restrictions | | | | | | |
| Undesignated | 2,901,173 | 156,295,722 | 159,196,895 | - | 159,196,895 | 145,329,828 |
| Designated for general reserves | 8,000,000 | - | 8,000,000 | - | 8,000,000 | 7,000,000 |
| Designated for building and information technology reserves | - | 9,993,110 | 9,993,110 | - | 9,993,110 | 9,822,640 |
| Total net assets without donor restrictions | <u>10,901,173</u> | <u>166,288,832</u> | <u>177,190,005</u> | <u>-</u> | <u>177,190,005</u> | <u>162,152,468</u> |
| Net assets with donor restrictions | | | | | | |
| Restricted for time | - | - | - | 17,576,116 | 17,576,116 | 23,467,752 |
| Restricted for time - endowment | - | - | - | 82,315,671 | 82,315,671 | 69,627,259 |
| Restricted in perpetuity | - | - | - | 46,749,606 | 46,749,606 | 45,975,524 |
| Total net assets with donor restrictions | <u>-</u> | <u>-</u> | <u>-</u> | <u>146,641,393</u> | <u>146,641,393</u> | <u>139,070,535</u> |
| Total net assets | <u>10,901,173</u> | <u>166,288,832</u> | <u>177,190,005</u> | <u>146,641,393</u> | <u>323,831,398</u> | <u>301,223,003</u> |
| Total liabilities and net assets | <u>\$ 36,585,075</u> | <u>\$ 328,685,329</u> | <u>\$ 365,270,404</u> | <u>\$ 146,641,393</u> | <u>\$ 511,911,797</u> | <u>\$ 493,213,588</u> |

The Notes to Financial Statements are an integral part of these statements.

**Seegerstrom Center for the Arts
Statements of Activities**

Year Ended June 30, 2023

With Summarized Comparative Information for the Year Ended June 30, 2022

| | Net Assets Without Donor Restrictions | | | Net Assets With Donor Restrictions | Total | |
|---|---------------------------------------|-------------------|--------------------|--|--------------------|---------------------|
| | Operating | Facilities | Total | | 2023 | 2022 |
| Revenues and public support | | | | | | |
| Program revenues | | | | | | |
| Center presentations | \$ 48,112,988 | \$ - | \$ 48,112,988 | \$ - | \$ 48,112,988 | \$ 21,492,760 |
| Hall rental operations | 9,901,257 | - | 9,901,257 | - | 9,901,257 | 7,607,992 |
| Education programs | 1,779,209 | - | 1,779,209 | - | 1,779,209 | 1,281,861 |
| | <u>59,793,454</u> | <u>-</u> | <u>59,793,454</u> | <u>-</u> | <u>59,793,454</u> | <u>30,382,613</u> |
| Other revenues | | | | | | |
| Endowment and other investment income (loss) | 1,944,732 | 17,073,920 | 19,018,652 | 14,105,472 | 33,124,124 | (44,858,230) |
| Employee retention credit income | - | - | - | - | - | 1,036,214 |
| Transfers - building, IT reserves, endowment | (1,660,000) | 1,660,000 | - | - | - | - |
| | <u>284,732</u> | <u>18,733,920</u> | <u>19,018,652</u> | <u>14,105,472</u> | <u>33,124,124</u> | <u>(43,822,016)</u> |
| Public support | | | | | | |
| Contributions of cash and other financial assets: | | | | | | |
| Contributions and special events - gross | 11,500,091 | 5,375,676 | 16,875,767 | 3,794,719 | 20,670,486 | 27,977,154 |
| Change in value of irrevocable deferred gifts | - | - | - | (6,088,224) | (6,088,224) | (790,131) |
| PPP loan forgiveness and SVOG grant income | - | - | - | - | - | 13,546,030 |
| Allowance for uncollectible contributions receivable | - | - | - | (69,728) | (69,728) | (21,234) |
| Contributions of nonfinancial assets: | | | | | | |
| Contributed services and gifts in-kind | 282,727 | - | 282,727 | - | 282,727 | 296,946 |
| | <u>11,782,818</u> | <u>5,375,676</u> | <u>17,158,494</u> | <u>(2,363,233)</u> | <u>14,795,261</u> | <u>41,008,765</u> |
| Net assets released from restrictions | | | | | | |
| Time restriction | 1,211,381 | 820,000 | 2,031,381 | (2,031,381) | - | - |
| Time restriction - endowment | - | 2,140,000 | 2,140,000 | (2,140,000) | - | - |
| | <u>1,211,381</u> | <u>2,960,000</u> | <u>4,171,381</u> | <u>(4,171,381)</u> | <u>-</u> | <u>-</u> |
| Total revenues and public support | <u>73,072,385</u> | <u>27,069,596</u> | <u>100,141,981</u> | <u>7,570,858</u> | <u>107,712,839</u> | <u>27,569,362</u> |

The Notes to Financial Statements are an integral part of these statements.

**Segerstrom Center for the Arts
Statements of Activities**

Year Ended June 30, 2023

With Summarized Comparative Information for the Year Ended June 30, 2022

| | <u>Net Assets Without Donor Restrictions</u> | | | <u>Net Assets With Donor Restrictions</u> | <u>Total</u> | |
|-----------------------------------|--|-----------------------|-----------------------|---|-----------------------|-----------------------|
| | <u>Operating</u> | <u>Facilities</u> | <u>Total</u> | | <u>2023</u> | <u>2022</u> |
| Total revenues and public support | \$ 73,072,385 | \$ 27,069,596 | \$ 100,141,981 | \$ 7,570,858 | \$ 107,712,839 | \$ 27,569,362 |
| Expenses | | | | | | |
| Program services | | | | | | |
| Center presentations | 45,893,106 | 6,819,545 | 52,712,651 | - | 52,712,651 | 32,124,511 |
| Hall rental operations | 7,328,057 | 6,140,031 | 13,468,088 | - | 13,468,088 | 12,157,172 |
| Education programs | 4,270,485 | 181,832 | 4,452,317 | - | 4,452,317 | 3,289,113 |
| | <u>57,491,648</u> | <u>13,141,408</u> | <u>70,633,056</u> | <u>-</u> | <u>70,633,056</u> | <u>47,570,796</u> |
| Supporting services | | | | | | |
| Management and general | 9,816,762 | 143,814 | 9,960,576 | - | 9,960,576 | 8,547,006 |
| Fundraising | 4,419,729 | 91,083 | 4,510,812 | - | 4,510,812 | 5,876,884 |
| | <u>14,236,491</u> | <u>234,897</u> | <u>14,471,388</u> | <u>-</u> | <u>14,471,388</u> | <u>14,423,890</u> |
| Total expenses | <u>71,728,139</u> | <u>13,376,305</u> | <u>85,104,444</u> | <u>-</u> | <u>85,104,444</u> | <u>61,994,686</u> |
| Changes in net assets | 1,344,246 | 13,693,291 | 15,037,537 | 7,570,858 | 22,608,395 | (34,425,324) |
| Net assets | | | | | | |
| Beginning of year | <u>9,556,927</u> | <u>152,595,541</u> | <u>162,152,468</u> | <u>139,070,535</u> | <u>301,223,003</u> | <u>335,648,327</u> |
| End of year | <u>\$ 10,901,173</u> | <u>\$ 166,288,832</u> | <u>\$ 177,190,005</u> | <u>\$ 146,641,393</u> | <u>\$ 323,831,398</u> | <u>\$ 301,223,003</u> |

The Notes to Financial Statements are an integral part of these statements.

Segerstrom Center for the Arts
Statements of Functional Expenses
Year Ended June 30, 2023

| | Program Services | | | | Supporting Services | | | Total |
|---|----------------------|------------------------|---------------------|----------------------|------------------------|---------------------|----------------------|----------------------|
| | Center Presentations | Hall Rental Operations | Education Programs | Subtotal | Management and General | Fundraising | Subtotal | |
| Salaries and benefits | | | | | | | | |
| Salaries and wages | \$ 2,347,713 | \$ 1,291,560 | \$ 1,373,812 | \$ 5,013,085 | \$ 5,619,011 | \$ 1,709,619 | \$ 7,328,630 | \$ 12,341,715 |
| Payroll taxes | 171,885 | 94,560 | 99,856 | 366,301 | 394,425 | 118,288 | 512,713 | 879,014 |
| Employee benefits | 285,436 | 157,028 | 167,718 | 610,182 | 611,979 | 264,366 | 876,345 | 1,486,527 |
| | <u>2,805,034</u> | <u>1,543,148</u> | <u>1,641,386</u> | <u>5,989,568</u> | <u>6,625,415</u> | <u>2,092,273</u> | <u>8,717,688</u> | <u>14,707,256</u> |
| Other | | | | | | | | |
| Advertising | 5,144,891 | - | 196,361 | 5,341,252 | 73,844 | 39,348 | 113,192 | 5,454,444 |
| Attraction share of receipts | - | 3,613,193 | - | 3,613,193 | - | - | - | 3,613,193 |
| Bond issuance cost amortization | 79,396 | 71,490 | 2,118 | 153,004 | - | - | - | 153,004 |
| Bond interest and premium amortization | 1,944,599 | 1,750,952 | 51,878 | 3,747,429 | - | - | - | 3,747,429 |
| Building and equipment maintenance | 2,368,307 | 2,104,191 | 102,145 | 4,574,643 | 385,806 | 44,278 | 430,084 | 5,004,727 |
| Depreciation | 4,795,550 | 4,317,589 | 127,836 | 9,240,975 | 143,816 | 91,083 | 234,899 | 9,475,874 |
| Donor cultivation and events | - | - | - | - | - | 310,757 | 310,757 | 310,757 |
| Information technology | - | - | - | - | 817,179 | - | 817,179 | 817,179 |
| Insurance | - | - | - | - | 537,430 | - | 537,430 | 537,430 |
| Meetings, conferences, and travel | 12,521 | 6,888 | 23,015 | 42,424 | 310,588 | 22,824 | 333,412 | 375,836 |
| Miscellaneous | 29,772 | 16,381 | 24,300 | 70,453 | 92,054 | 97,837 | 189,891 | 260,344 |
| Postage and shipping | 2,790 | 1,535 | 288 | 4,613 | 33,284 | 10,246 | 43,530 | 48,143 |
| Printing and publication | 9,070 | 4,990 | 717 | 14,777 | 10,008 | 22,119 | 32,127 | 46,904 |
| Professional fees | 56,192 | 30,913 | 11,286 | 98,391 | 603,094 | 52,056 | 655,150 | 753,541 |
| Programming | 35,452,134 | - | 2,261,824 | 37,713,958 | - | - | - | 37,713,958 |
| Special events | - | - | - | - | - | 1,700,325 | 1,700,325 | 1,700,325 |
| Supplies | 12,082 | 6,646 | 7,595 | 26,323 | 112,704 | 4,520 | 117,224 | 143,547 |
| Telefunding and direct mail | - | - | - | - | 181,528 | 22,666 | 204,194 | 204,194 |
| Telephone | 313 | 172 | 1,568 | 2,053 | 33,826 | 480 | 34,306 | 36,359 |
| Total expenses included in the expense section of the statement of activities | <u>\$ 52,712,651</u> | <u>\$ 13,468,088</u> | <u>\$ 4,452,317</u> | <u>\$ 70,633,056</u> | <u>\$ 9,960,576</u> | <u>\$ 4,510,812</u> | <u>\$ 14,471,388</u> | <u>\$ 85,104,444</u> |

The Notes to Financial Statements are an integral part of this statement.

Segerstrom Center for the Arts
Statements of Functional Expenses
Year Ended June 30, 2022

| | Program Services | | | | Supporting Services | | | Total |
|---|----------------------|------------------------|---------------------|----------------------|------------------------|---------------------|----------------------|----------------------|
| | Center Presentations | Hall Rental Operations | Education Programs | Subtotal | Management and General | Fundraising | Subtotal | |
| Salaries and benefits | | | | | | | | |
| Salaries and wages | \$ 2,225,275 | \$ 845,605 | \$ 1,085,748 | \$ 4,156,628 | \$ 4,612,160 | \$ 1,500,146 | \$ 6,112,306 | \$ 10,268,934 |
| Payroll taxes | 162,146 | 61,615 | 79,468 | 303,229 | 326,396 | 112,429 | 438,825 | 742,054 |
| Employee benefits | <u>279,377</u> | <u>106,163</u> | <u>123,547</u> | <u>509,087</u> | <u>422,308</u> | <u>194,269</u> | <u>616,577</u> | <u>1,125,664</u> |
| | 2,666,798 | 1,013,383 | 1,288,763 | 4,968,944 | 5,360,864 | 1,806,844 | 7,167,708 | 12,136,652 |
| Other | | | | | | | | |
| Advertising | 3,347,406 | - | 140,891 | 3,488,297 | 145,459 | 18,177 | 163,636 | 3,651,933 |
| Attraction share of receipts | - | 2,223,700 | - | 2,223,700 | - | - | - | 2,223,700 |
| Bond issuance cost amortization | 67,334 | 79,385 | 2,059 | 148,778 | - | - | - | 148,778 |
| Bond interest and premium amortization | 1,720,467 | 2,028,655 | 52,630 | 3,801,752 | - | - | - | 3,801,752 |
| Building and equipment maintenance | 1,541,901 | 1,786,475 | 81,865 | 3,410,241 | 303,675 | 32,993 | 336,668 | 3,746,909 |
| Depreciation | 4,249,711 | 5,010,186 | 129,895 | 9,389,792 | 146,132 | 92,550 | 238,682 | 9,628,474 |
| Donor cultivation and events | - | - | - | - | - | 432,949 | 432,949 | 432,949 |
| Employee retention credit expense | - | - | - | - | 723,762 | - | 723,762 | 723,762 |
| Information technology | - | - | - | - | 564,915 | - | 564,915 | 564,915 |
| Insurance | - | - | - | - | 548,988 | - | 548,988 | 548,988 |
| Meetings, conferences, and travel | 9,995 | 3,798 | 7,017 | 20,810 | 110,039 | 6,089 | 116,128 | 136,938 |
| Miscellaneous | 15,560 | 5,913 | 20,366 | 41,839 | 76,754 | 95,905 | 172,659 | 214,498 |
| Postage and shipping | - | - | 424 | 424 | 32,375 | 9,365 | 41,740 | 42,164 |
| Printing and publication | 3,825 | 1,454.00 | 645 | 5,924 | 42,905 | 15,769 | 58,674 | 64,598 |
| Professional fees | 9,338 | 3,548 | 11,346 | 24,232 | 367,518 | 34,147 | 401,665 | 425,897 |
| Programming | 18,490,406 | - | 1,546,829 | 20,037,235 | - | - | - | 20,037,235 |
| Special events | - | - | - | - | - | 3,137,057 | 3,137,057 | 3,137,057 |
| Supplies | 1,092 | 418 | 5,737 | 7,247 | 73,869 | 3,847 | 77,716 | 84,963 |
| Telefunding and direct mail | - | - | - | - | - | 190,872 | 190,872 | 190,872 |
| Telephone | <u>678</u> | <u>257</u> | <u>646</u> | <u>1,581</u> | <u>49,751</u> | <u>320</u> | <u>50,071</u> | <u>51,652</u> |
| Total expenses included in the expense section of the statement of activities | <u>\$ 32,124,511</u> | <u>\$ 12,157,172</u> | <u>\$ 3,289,113</u> | <u>\$ 47,570,796</u> | <u>\$ 8,547,006</u> | <u>\$ 5,876,884</u> | <u>\$ 14,423,890</u> | <u>\$ 61,994,686</u> |

The Notes to Financial Statements are an integral part of this statement.

Segerstrom Center for the Arts
Statements of Cash Flows
Year Ended June 30, 2023
With Summarized Comparative Information for the Year Ended June 30, 2022

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| Operating activities | | |
| Changes in net assets | \$ 22,608,395 | \$ (34,425,324) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation | 9,475,874 | 9,628,474 |
| Change in allowance for uncollectible contributions receivable | 69,728 | 21,233 |
| Change in discount to present value | 380,923 | 316,057 |
| Amortization of bond issuance cost | 153,004 | 148,778 |
| Amortization of bond premium | (4,502,409) | (4,213,405) |
| Net realized (gain) loss on marketable securities | (26,006,566) | 1,941,058 |
| Net unrealized loss on marketable securities | 9,854,793 | 55,780,003 |
| Forgiveness of PPP loan | - | (3,546,030) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (551,720) | (1,041,872) |
| Prepaid expenses | (651,456) | (246,497) |
| Contributions receivable | (485,278) | (1,167,837) |
| Employee retention credit receivable | 1,858,837 | (1,036,214) |
| Beneficial interest in irrevocable deferred gifts | 6,088,224 | 41,572,518 |
| Accounts payable and accrued liabilities | 2,205,526 | 2,275,153 |
| Deferred revenue | (1,734,423) | 8,535,688 |
| Annuity payment liability | (4,722) | (7,882) |
| Net cash provided by operating activities | <u>18,758,730</u> | <u>74,533,901</u> |
| Investing activities | | |
| Proceeds from sales and maturities of investments | 63,548,156 | 25,328,003 |
| Purchases of investments | (73,989,803) | (93,553,540) |
| Purchases of property and equipment | (4,214,411) | (2,072,472) |
| Net cash used in investing activities | <u>(14,656,058)</u> | <u>(70,298,009)</u> |
| Financing activities | | |
| Bond premium issuance | 5,972,838 | - |
| Proceeds from issuance of bonds payable | 42,000,000 | - |
| Repayments of bonds payable | (48,000,000) | - |
| Net cash used in financing activities | <u>(27,162)</u> | <u>-</u> |
| Net change in cash and cash equivalents | 4,075,510 | 4,235,892 |
| Cash and cash equivalents | | |
| Beginning of year | <u>12,874,704</u> | <u>8,638,812</u> |
| End of year | <u>\$ 16,950,214</u> | <u>\$ 12,874,704</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | <u>\$ 7,700,000</u> | <u>\$ 7,700,000</u> |

The Notes to Financial Statements are an integral part of these statements.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Presentation

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

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

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

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

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

The Center's programs have been categorized as follows:

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

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

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

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

Comparative Data

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements as of and for the year ended June 30 of the prior year from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center considers highly liquid investments and investments with original maturities of three months or less to be cash and cash equivalents. The Center has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Center's financial condition, results of operations, and cash flows.

Marketable Securities

The Center reports its investments at fair value. Investment income from endowments is reported as time-restricted income unless it is appropriated for expenditure, in which case it is recognized as income without donor restrictions. Unrealized and realized gains or losses have been recorded as endowment and other investments income (loss) in the statements of activities.

Beneficial Interest in Irrevocable Deferred Gifts

Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Center is also a beneficiary in certain trusts. The Center recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Center is beneficiary but is not the trustee. The present value discount on those future benefits is computed using the three-year U.S. Treasury note rate as of the statement of financial position dates (4.49% and 2.99% as of June 30, 2023 and 2022, respectively). Changes in the present value discount amount and overall value of the Center's beneficial interest in these trusts are recognized in the statements of activities. When these gifts are revocable in nature, they are not reflected in the financial statements. The Center also recognizes as revenue the cash surrender value of the insurance policies for which the Center is the beneficiary.

Property and Equipment

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

Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement or other disposition of property and equipment, or once the property and equipment have been fully depreciated, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the statements of activities.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment loss was recorded for the years ended June 30, 2023 and 2022.

Revenue from Contracts with Customers

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Center expects to be entitled in exchange for those goods or services.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Center performs the following steps: (i) identify contracts with customers; (ii) identify performance obligations, a performance obligation is a promise in a contract to transfer a distinct good or service to the customer; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when (or as) the Center satisfies each performance obligation.

The following summarizes the Center's performance obligations:

Ticket Sales

Ticket sales represent the sums actually paid for individual tickets of admission to a production of the Center including handling and other fees. Tickets and the related fees are nonrefundable at the time of receipt unless a performance is canceled. The Center estimates the number of cancellations and records a reserve if deemed material. The Center allows for exchanges under certain circumstances for tickets of equal or lesser value. The total yearly adjustment for exchanged tickets is immaterial to the Center. Tickets purchased in advance are recorded as contract liabilities by the Center. Advanced ticket sales are recorded as revenue when the performance related to the ticket sale is complete. Admission is recognized at a specific point in time, which is when the performance related to the ticket is complete.

Education Income

Education income represents income received for customer participation in education programs. Fees for tuition services are set by the Center and are set forth in the agreements with customers. Fees for tuition will vary based on program selection. The Center offers discounts and scholarships, which are immaterial in nature. Payments received in advance for education programs are recorded as contract liabilities by the Center. Advanced education payments are recorded as revenue when the education program is complete. Tuition is refundable under certain circumstances, such as cancellation of the program. The total yearly adjustment for refunded tuition is immaterial to the Center. Tuition and education income are recognized over a period of time, which is the length of the education program.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

The timing of revenue recognition, billings, and cash collections results in receivables and contract liabilities in the statements of financial position. Additionally, the Center records deferred revenue for the sale of gift certificates, which is recorded as revenue upon the redemption of those gift cards for tickets at the completion of the related performance. Breakage income from gift certificates, which is the Center's estimate of the nonredeemed gift certificates recognized in Center presentations revenue, was not material to the financial statements as of June 30, 2023 and 2022. Total contract assets which are included in accounts receivable as of June 30, 2023, 2022, and 2021 were \$1,665,251, \$1,113,531, and \$71,659, respectively. Total contract liabilities which are included in deferred revenue as of June 30, 2023, 2022, and 2021 were \$20,431,037, \$22,165,460, and \$13,629,772, respectively.

Hall Rental Operations

Hall rental operations income represents income earned by the Center for the rental of its facilities to outside organizations for their own performances. Deposits received in advance of usage are recorded as deferred revenue by the Center. Revenue is recognized upon completion of the rental terms in the contract.

Contributions

Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Center's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed property and equipment are recorded at fair value at the date of donation. In the absence of explicit donor stipulations, contributions of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions and are released from restrictions over the donor-imposed time restricted period.

Unconditional promises to give are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

Contributed Nonfinancial Assets

Donated materials and other nonfinancial contributions are reflected in the accompanying financial statements at their estimated market values at date of receipt. Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time and services in the Center's fundraising campaigns and other activities. Only those amounts that meet the criteria above are recorded in the accompanying financial statements.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

The Center has received donations of various services and noncash assets, such as professional services, advertising, airline tickets and other miscellaneous items that were used for purposes of operating activities. Contributed services and gifts in kind in the amounts of \$282,727 and \$296,946 are recorded as income and expense in the statements of activities for the years ended June 30, 2023 and 2022, respectively. Additionally, the Center received other noncash donations that would not ordinarily be purchased by the Center.

Deferred Revenue

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

Advertising Expenses

The Center pays for the advertising of Broadway shows and other presentations held at the Center in advance of the actual running of the event. These advanced payments are recorded as prepaid expenses on the Center's statements of financial position until the running of the show or presentation ends. At that point, the Center reclassifies the entire amount of prepaid advertising expenses related to that particular show or presentation as program expense in the Center's statements of activities. Total advertising expenses incurred during the years ended June 30, 2023 and 2022 were \$5,454,444 and \$3,651,933, respectively.

Income Taxes

The Center is exempt from federal and state income taxes under IRC Section 501(c)(3) and Section 23701 of the California Revenue and Taxation Code and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the Center has not been determined by the Internal Revenue Service ("IRS") to be a "private foundation" within the meaning of the IRC Section 509(a).

The Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. As a matter of course, various taxing authorities, including the IRS, have the authority to regularly audit the Center.

There were no tax years open to examination by major tax jurisdictions as of June 30, 2023 and 2022. The Center does not believe its financial statements include (or reflect) any uncertain tax positions. Further, there are no income tax related penalties and interest included in these financial statements.

Use of Estimates

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

Fair Value Measurements

The carrying value of financial instruments in the financial statements approximates fair value.

The Center follows the fair value measurement provisions of the FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities (see Note 3) and for fair value measurements of nonfinancial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

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

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

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities. The Center's Level 1 assets include domestic equity mutual funds, international equity mutual funds, and fixed income mutual funds.

Level 2 - Fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Center's Level 2 assets include alternative investments.

Level 3 - Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Center's Level 3 assets include beneficial interest in irrevocable deferred gifts.

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

Functional Allocation of Expenses

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

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

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

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

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

Leases

The Center categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Center to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. The Center had no finance leases during 2023 and 2022.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. For leases of property, the Center accounts for these other services as a component of the lease.

Lease liabilities are recognized at the present value of the fixed lease payments, using a weighted average discount rate based on similarly secured borrowings available to the Center. Right of use ("ROU") assets are recognized based on the initial present value of the fixed lease payments, plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

Upon adoption of ASU 2016-02 *Leases*, the Center did not recognize ROU assets related to its leased property and equipment as it did not have a material effect on the financial statements. Corresponding lease liabilities were also not recognized. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to net assets upon adoption.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. This update requires immediate recognition of management's estimates of current expected credit losses ("CECL"). Under the prior model, losses were recognized only as they were incurred. The new model is applicable to most financial assets and certain other instruments that are not measured at fair value through net income. Management is currently assessing the impact of this update on the financial statements. The standard is effective for the Center's year ending June 30, 2024.

Subsequent Events

The Center evaluated subsequent events through November 16, 2023, the date these financial statements were available to be issued. With the exception of the matter in Note 11, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

2. AVAILABILITY AND LIQUIDITY

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

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

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

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

To uphold these principals, the Center's Finance Committee meets on a periodic basis to provide strategic oversight of the Center's operating budget. In doing so, the Center strives to maintain financial assets available to meet current operating expenditures and to cover future obligations of fixed rate bonds issued by the Center. Additionally, the Board of Directors has designated certain assets as reserves for operations and maintenance of buildings and equipment that can be accessed in times of financial hardship or unbudgeted maintenance or repairs. The Board of Directors has also created a quasi-endowment account, the earnings of which, in conjunction with the earnings from donor-restricted endowments, help fund the ongoing operations of the Center. The Center's investment policy includes an endowment spending rate up to 5% of the endowment funds' market value over a rolling twelve-quarter average. During the years ended June 30, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

Segerstrom Center for the Arts
Notes to Financial Statements
June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

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

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| Financial assets at year-end | | |
| Cash and equivalents | \$ 16,950,214 | \$ 12,874,704 |
| Investments | 295,828,195 | 269,234,775 |
| Accounts receivable | 1,665,251 | 1,113,531 |
| Contributions receivable | 5,006,415 | 4,971,788 |
| Employee retention credit receivable | 1,036,213 | 2,895,050 |
| Beneficial interest in irrevocable deferred gifts | <u>12,872,740</u> | <u>18,960,964</u> |
| Total financial assets | <u>333,359,028</u> | <u>310,050,812</u> |
| Less financial assets not available for general expenditures within one year due to donor-imposed restrictions | | |
| Restricted for time | (13,321,813) | (20,851,911) |
| Restricted for time - endowment | (82,315,671) | (69,627,259) |
| Restricted in perpetuity | <u>(46,749,606)</u> | <u>(45,975,524)</u> |
| | <u>(142,387,090)</u> | <u>(136,454,694)</u> |
| Less financial assets not available for general expenditures within one year due to internal designations | | |
| Designated for general reserves | (8,000,000) | (7,000,000) |
| Designated for building and information technology repairs | <u>(9,993,110)</u> | <u>(9,822,640)</u> |
| | <u>(17,993,110)</u> | <u>(16,822,640)</u> |
| Less financial assets earmarked to cover future obligations on fixed rate bonds | | |
| Cash earmarked to facilities fund | (952,040) | (1,691,843) |
| Investments earmarked to facilities fund | <u>(149,704,937)</u> | <u>(136,816,925)</u> |
| | <u>(150,656,977)</u> | <u>(138,508,768)</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 22,321,851</u> | <u>\$ 18,264,710</u> |

The Center's cash flows have seasonal variations due to timing of subscription series renewals and single tickets sales. As described in Note 1, the Center's endowment funds consist of donor-restricted endowments. The Center's endowment policy provides for an annual distribution for operating purposes.

**Segerstrom Center for the Arts
Notes to Financial Statements
June 30, 2023**

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

3. ASSETS RECORDED AT FAIR VALUE

The following tables set forth by level, within the fair value hierarchy, the Center's assets at fair value at June 30:

| | Assets at Fair Value as of June 30, 2023 | | | Total |
|---|---|----------------------|----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments | | | | |
| Domestic equity mutual funds | \$ 151,171,361 | \$ - | \$ - | \$ 151,171,361 |
| International equity mutual funds | 71,544,318 | - | - | 71,544,318 |
| Fixed income mutual funds | 39,846,159 | - | - | 39,846,159 |
| Alternative investments | - | 33,266,357 | - | 33,266,357 |
| | <u>262,561,838</u> | <u>33,266,357</u> | <u>-</u> | <u>295,828,195</u> |
| Beneficial interest in irrevocable deferred gifts | - | - | 12,872,740 | 12,872,740 |
| | <u>\$ 262,561,838</u> | <u>\$ 33,266,357</u> | <u>\$ 12,872,740</u> | <u>\$ 308,700,935</u> |

| | Assets at Fair Value as of June 30, 2022 | | | Total |
|---|---|----------------------|----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments | | | | |
| Domestic equity mutual funds | \$ 151,854,653 | \$ - | \$ - | \$ 151,854,653 |
| International equity mutual funds | 53,247,116 | - | - | 53,247,116 |
| Fixed income mutual funds | 42,710,479 | - | - | 42,710,479 |
| Alternative investments | - | 21,422,527 | - | 21,422,527 |
| | <u>247,812,248</u> | <u>21,422,527</u> | <u>-</u> | <u>269,234,775</u> |
| Beneficial interest in irrevocable deferred gifts | - | - | 18,960,964 | 18,960,964 |
| | <u>\$ 247,812,248</u> | <u>\$ 21,422,527</u> | <u>\$ 18,960,964</u> | <u>\$ 288,195,739</u> |

Investment income (loss) is summarized as follows, for the years ended June 30:

| | 2023 | 2022 |
|--|----------------------|------------------------|
| Interest and dividend income | \$ 6,104,476 | \$ 4,327,781 |
| Investment fees | (568,908) | (479,451) |
| Realized and unrealized (losses) gains | <u>27,588,556</u> | <u>(48,706,560)</u> |
| | <u>\$ 33,124,124</u> | <u>\$ (44,858,230)</u> |

During the year ended June 30, 2023, there were no transfers out of Level 3 assets into Level 1 assets. During the year ended June 30, 2022, there were transfers of \$58,669,824 out of Level 3 assets into Level 1 assets. During the years ended June 30, 2023 and 2022, there were no purchases of Level 3 assets.

Segerstrom Center for the Arts
Notes to Financial Statements
June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

4. CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. The Center has a reserve in its allowance for uncollectible accounts, which is equal to 100% for all past-due unconditional promises to give and 10% of all unconditional promises to give expected to be collected in the future. Unconditional promises to give that are expected to be collected in future years are also recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the three-year U.S. Treasury note rate applicable in the year in which the promise was made. Amortization of the discount is included in contributions revenue, which was 4.49% and 2.99% for the years ended June 30, 2023 and 2022.

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

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|---------------------|---------------------|
| Amounts due in | | |
| Less than one year | \$ 4,254,303 | \$ 2,615,841 |
| One to five years | 1,786,817 | 2,837,500 |
| More than five years | <u>530,000</u> | <u>632,500</u> |
| Total promises to give | 6,571,120 | 6,085,841 |
| Less: Allowance for uncollectibles | (571,808) | (502,084) |
| Less: Unamortized discount | <u>(992,897)</u> | <u>(611,969)</u> |
| Net contributions receivable | <u>\$ 5,006,415</u> | <u>\$ 4,971,788</u> |

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|-----------------------|-----------------------|
| Land | \$ 10,605,607 | \$ 10,605,606 |
| Building - Theater I and II | 306,784,144 | 306,471,286 |
| Equipment and furniture | 55,474,880 | 51,573,325 |
| Fine arts | <u>1,100,000</u> | <u>1,100,000</u> |
| | 373,964,631 | 369,750,217 |
| Less: Accumulated depreciation | <u>(196,808,901)</u> | <u>(187,333,024)</u> |
| | <u>\$ 177,155,730</u> | <u>\$ 182,417,193</u> |

Depreciation expense totaled \$9,475,874 and \$9,628,474 for the years ended June 30, 2023 and 2022, respectively.

Segerstrom Center for the Arts

Notes to Financial Statements

June 30, 2023

With Summarized Comparative Information as of and for the Year Ended June 30, 2022

6. DESIGNATED NET ASSETS

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

Net assets designated for general reserves have been allocated to provide for extraordinary operational expenses when they occur. Additions to the reserve totaled \$1,000,000 during the years ended June 30, 2023 and 2022.

Net assets designated for building and information technology reserves have been allocated to provide for long-term maintenance of the facility and replacement of theatrical and other equipment. Additions to the reserve totaled \$4,384,883 and \$3,368,479, respectively, including interest earned and unrealized gains (losses) on these funds of \$584,883 and \$(1,131,521) during the years ended June 30, 2023 and 2022, respectively. The reserve was reduced by \$4,214,412 and \$2,072,472 for capital improvements during the years ended June 30, 2023 and 2022, respectively.

7. ENDOWMENT

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

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

The Center's endowment consists of 39 individual funds.

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Changes in Endowment Net Assets for the Year Ended June 30, 2023

| | <u>With Donor Restrictions</u> | | <u>Total</u> |
|---|--------------------------------|----------------------|-----------------------|
| | <u>For Time</u> | <u>In Perpetuity</u> | |
| Endowment net assets, July 1, 2022 | \$ 69,627,259 | \$ 45,975,524 | \$ 115,602,783 |
| Support | | | |
| Contributions | 722,940 | 769,359 | 1,492,299 |
| Gift annuity adjustment | - | 4,723 | 4,723 |
| Investment return | | | |
| Investment income | 2,163,228 | - | 2,163,228 |
| Investment fees | (583,282) | - | (583,282) |
| Net appreciation (realized and unrealized) | 12,525,526 | - | 12,525,526 |
| Appropriation of endowment for expenditure | (2,140,000) | - | (2,140,000) |
| | <u>\$ 82,315,671</u> | <u>\$ 46,749,606</u> | <u>\$ 129,065,277</u> |

Changes in Endowment Net Assets for the Year Ended June 30, 2022

| | <u>With Donor Restrictions</u> | | <u>Total</u> |
|---|--------------------------------|----------------------|-----------------------|
| | <u>For Time</u> | <u>In Perpetuity</u> | |
| Endowment net assets, July 1, 2021 | \$ 40,972,970 | \$ 45,742,660 | \$ 86,715,630 |
| Support | | | |
| Contributions | 14,397,479 | 4,982 | 14,402,461 |
| Gift annuity adjustment | - | 7,882 | 7,882 |
| Investment return | | | |
| Investment income | 1,560,222 | - | 1,560,222 |
| Investment fees | (479,451) | - | (479,451) |
| Net depreciation (realized and unrealized) | (17,606,348) | - | (17,606,348) |
| Transfers from beneficial interest in irrevocable deferred gifts | 30,782,387 | 220,000 | 31,002,387 |
| | <u>\$ 69,627,259</u> | <u>\$ 45,975,524</u> | <u>\$ 115,602,783</u> |

Return Objectives and Risk Parameters

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

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Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center's investment policy includes an endowment spending rate of up to 5% of the endowment funds' market value over a rolling twelve-quarter average. This spending rate constitutes the Board of Directors' annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the immediate spending of a portion of the income of the portfolio, provide a target rate of return for the endowment fund for the Center, and provide a sustainable spending level that will allow for support of the Center's initiatives in fulfilling its mission, while maintaining the purchasing power of the endowment fund's assets. During the year ended June 30, 2023, there was an endowment draw taken of \$2,140,000, and during the year ended June 30, 2022, there was no endowment draw taken (none required), respectively, as reflected in the statements of activities. The endowment draw taken during the years ended June 30, 2023 and 2022 was less than the allowable 5% rolling twelve-quarter average.

8. BONDS PAYABLE

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

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

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

The Series 2016 ten-year fixed rate bond was issued in June 2016 for an aggregate amount of \$42,000,000. The bonds were issued with a 5.00% coupon rate with a 2.07% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of \$11,072,460. This premium will be paid to bond holders by the Center as part of the semiannual interest payments over the ten-year life of the bond. The Series 2016 bond matures on July 1, 2026.

The Series 2016 B seven-year fixed rate bond was issued in July 2016 for an aggregate amount of \$48,000,000. On May 23, 2023, the Center refinanced the remaining portion of the above bond for an aggregate amount of \$42,000,000 under the Series 2023 seven-year fixed rate bond. The bonds were issued with a 5.00% coupon rate with a 2.78% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of \$5,972,820. This premium will be paid to bond holders by the Center as part of the semiannual interest payments over the seven-year life of the bond. The Series 2023 bond matures on July 1, 2030.

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The Series 2017 fixed rate bond was issued in December 2017 for an aggregate amount of \$64,000,000. These bonds were issued with two maturity dates, seven and ten years. One-half of the series, \$32,000,000, has a 5.00% coupon rate with a 2.23% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of \$5,721,280. This premium will be paid to bond holders by the Center as part of the semiannual interest payments, over the seven-year life of the bond. This portion of the Series 2017 bond matures on January 1, 2025. The second half, also \$32,000,000, has a 5.00% coupon rate with a 2.56% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of \$6,855,040. This premium will be paid to bond holders by the Center as part of the semiannual interest payments over the ten-year life of the bond. This portion of the Series 2017 bond matures on January 1, 2028.

Amortization expense associated with the cost of issuing the above-mentioned bonds totaled \$153,004 and \$148,778 for the years ended June 30, 2023 and 2022, respectively. During the years ended June 30, 2023 and 2022, interest expense, net of bond premium amortization, amounted to \$3,747,429 and \$3,801,752, respectively, and bond premium amortization amounted to \$4,502,409 and \$4,213,405 for the years ended June 30, 2023 and 2022, respectively.

The annual aggregate maturities of bonds payable are as follows:

| | |
|------------------------------------|-----------------------|
| 2024 | \$ - |
| 2025 | 32,000,000 |
| 2026 | - |
| 2027 | 42,000,000 |
| 2028 | 32,000,000 |
| Thereafter | 42,000,000 |
| Less: Deferred bond issuance costs | <u>(497,183)</u> |
| | <u>\$ 147,502,817</u> |

9. RETIREMENT PLANS

Defined Contribution Retirement Plan

The Center has a defined contribution retirement plan (the "Plan") available to substantially all of the nonunion employees of the Center after they attain the service requirement of one year and 1,000 hours, which is determined as of June 30 and December 31. Once eligible, the Center may make discretionary and/or matching participant contributions in amounts set by the Center. The Plan permits eligible employees to make voluntary contributions not in excess of the IRS limits. The employee's vested percentage in the Plan for each year of service is as follows:

| <u>Years of Service</u> | <u>Vested Percentage</u> |
|-------------------------|--------------------------|
| 2 | 20% |
| 3 | 40% |
| 4 | 60% |
| 5 | 80% |
| 6 | 100% |

Costs of the retirement Plan are funded as they are incurred, and employer contributions to the Plan amounted to \$416,009 and \$349,917 during the years ended June 30, 2023 and 2022, respectively.

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10. LITIGATION

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

11. CONCENTRATIONS OF LABOR SUBJECT TO COLLECTIVE BARGAINING AGREEMENT AND SUBSEQUENT EVENT

Certain employees of the Center and stage employees are subject to a collective bargaining agreement. Employees subject to the agreement approximate 35% of the Center's labor force. Although management has no indication of any work stoppages and believes any would be unlikely, any such labor disruption could cause a severe impact on the Center's operations. Additionally, under the Center's collective bargaining agreement, any work stoppages are prohibited for the term of the contract. The Center's collective bargaining agreement was set to expire on June 30, 2023. Subsequently, the Center's collective bargaining agreement was renewed on October 2, 2023, and is now set to expire on June 30, 2028.

12. CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the statements of activities included the following, for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|------------------------|-------------------|-------------------|
| Advertising | \$ 83,500 | \$ 76,400 |
| Airline tickets | - | 15,600 |
| Professional services | 72,191 | 199,607 |
| Special event supplies | 127,036 | - |
| Other | - | 5,339 |
| | <u>\$ 282,727</u> | <u>\$ 296,946</u> |

The Center recognized contributed nonfinancial assets within revenue, including contributed advertising, airline tickets, professional services, special event supplies and other miscellaneous items. In valuing the contributed nonfinancial assets, the Center used donor stated prices or the Center estimated the cost to acquire at local retailers in the area. Unless otherwise noted, contributed nonfinancial assets did not have any donor-imposed restrictions.

Contributed advertising was utilized to raise awareness for shows and the Center itself. Contributed airline tickets were used to pay for travel for Center employees and performers. Contributed professional services were utilized to provide legal counsel to the Center. Contributed special event supplies were used to provide food and beverage to guests attending.

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13. PAYCHECK PROTECTION PROGRAM (“PPP”) LOAN

On May 2, 2020, the Center issued an unsecured promissory note (the “PPP Loan”) for \$3,546,030 through programs established under the Coronavirus Aid, Relief, and Economic Securities (“CARES”) Act and administered by the U.S. Small Business Administration (the “SBA”). The PPP Loan was guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Center was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within a defined period, and otherwise satisfied PPP requirements. On January 26, 2022, the Center was informed that its application for forgiveness of \$3,546,030 of the PPP Loan was approved. Accordingly, the Center recorded as forgiveness of debt in the accompanying statement of activities. Since the PPP Loan was over \$2,000,000, the Company’s loan forgiveness application will be subject to review and potential audit by the SBA.

14. SHUTTERED VENUE OPERATORS GRANT

On June 24, 2021, the Center was awarded a Shuttered Venue Operators Grant from the SBA in the amount of \$10,000,000 and received the money in July 2021. This cost-reimbursable federal grant was eligible to cover expenses for the period of March 20, 2020 through December 31, 2021, and was extended to June 30, 2022. Allowable qualifying expenses incurred through June 30, 2022 were \$10,000,000, which allowed the grant to be recognized as revenue during the year ended June 30, 2022.

15. EMPLOYEE RETENTION CREDIT

The Center applied for the employee retention credit in the amount of \$2,895,050. The credits were claimed against the Center’s payroll tax obligations for each calendar quarter based on qualified wages, subject to certain limitations. For the year ended June 30, 2022, the Center recorded revenue totaling \$1,036,214, which is included in employee retention credit income in the accompanying statement of activities.