

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

**FINANCIAL STATEMENTS**

Year Ended June 30, 2008

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

**FINANCIAL STATEMENTS**

Year Ended June 30, 2008

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

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

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of the California Center for the Arts, Escondido, Foundation, Inc. (Foundation) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Foundation for the year ended June 30, 2007 which were audited by Moreland & Associates, Inc. and whose report dated February 18, 2008 expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Foundation taken as a whole. The supplementary information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Mayer Hoffman McCann P.C.*

Irvine, California  
March 2, 2009

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**FINANCIAL STATEMENTS**

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

**STATEMENT OF FINANCIAL POSITION**

June 30, 2008

(With Comparative Data for June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 630,367	(98,954)
Receivables		
Accounts, net of allowance for doubtful accounts	174,910	172,816
Contribution	620,342	-
Pledges	1,623	10,227
Prepays	156,876	120,174
Inventory	<u>119,881</u>	<u>117,975</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,703,999</u>	<u>322,238</u>
<b>NONCURRENT ASSETS</b>		
Restricted:		
Cash and cash equivalents	2,848	1,271
Investments	1,083,184	1,231,359
Contributions receivable	165,000	165,000
Property and equipment, net of accumulated depreciation	<u>142,192</u>	<u>183,090</u>
Net property and equipment	<u>1,393,224</u>	<u>1,580,720</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,097,223</u>	<u>1,902,958</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	100,760	164,184
Accrued expenses	287,195	266,192
Line of credit	1,550,020	1,550,020
Current portion of note payable	48,000	-
Advance ticket sales and deposits	501,070	612,074
Unearned revenue	<u>1,209,417</u>	<u>99,550</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,696,462</u>	<u>2,692,020</u>
<b>NONCURRENT LIABILITIES</b>		
Note payable	32,000	128,000
Long-term debt	<u>513,256</u>	<u>479,250</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>545,256</u>	<u>607,250</u>
<b>TOTAL LIABILITIES</b>	<u>4,241,718</u>	<u>3,299,270</u>
<b>NET ASSETS (DEFICIT):</b>		
Unrestricted	(3,244,910)	(2,937,772)
Temporary restricted	878,080	170,951
Permanently restricted	<u>1,222,335</u>	<u>1,370,509</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(1,144,495)</u>	<u>(1,396,312)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,097,223</u>	<u>1,902,958</u>

See Notes to Financial Statements

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

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2008

((With Comparative Totals For Year Ended June 30, 2007))

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals 2008</u>	<u>2007</u>
<b>REVENUE AND SUPPORT</b>					
Ticket sales	\$ 1,166,570	-	-	1,166,570	1,823,703
Center sales - food and beverage, net	811,449	-	-	811,449	1,108,010
City of Escondido:					
Management fee	1,300,035	-	-	1,300,035	1,300,035
Occupancy	640,000	-	-	640,000	640,000
Utilities	526,622	-	-	526,622	595,811
Other contributions	-	620,342	-	620,342	-
Annual fund	762,987	236,700	-	999,687	929,196
Rentals - studio, theater and room, net	723,512	-	-	723,512	811,199
Investment income (loss)	(437)	-	(148,174)	(148,611)	180,907
Government grants	90,000	-	-	90,000	86,200
Special events, net of direct expenses	51,730	20,000	-	71,730	27,462
Miscellaneous, net	133,413	-	-	133,413	168,529
Net assets released from restrictions	615,017	(615,017)	-	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>6,820,898</u>	<u>262,025</u>	<u>(148,174)</u>	<u>6,934,749</u>	<u>7,671,052</u>
<b>EXPENSES</b>					
<b>PROGRAM SERVICES</b>					
Performing arts	3,431,097	-	-	3,431,097	4,041,113
Museum	537,221	-	-	537,221	485,535
Education	279,120	-	-	279,120	287,536
Community affairs	151,489	-	-	151,489	139,708
Center sales and event services	999,173	-	-	999,173	1,301,712
Retail operations	23,325	-	-	23,325	27,601
<b>TOTAL PROGRAM SERVICES</b>	<u>5,421,425</u>	<u>-</u>	<u>-</u>	<u>5,421,425</u>	<u>6,283,205</u>
<b>SUPPORTING SERVICES</b>					
Administration and finance	909,554	-	-	909,554	922,022
Fundraising	259,263	-	-	259,263	261,318
Marketing	537,794	-	-	537,794	521,292
<b>TOTAL SUPPORTING SERVICES</b>	<u>1,706,611</u>	<u>-</u>	<u>-</u>	<u>1,706,611</u>	<u>1,704,632</u>
<b>TOTAL EXPENSES</b>	<u>7,128,036</u>	<u>-</u>	<u>-</u>	<u>7,128,036</u>	<u>7,987,837</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(307,138)	262,025	(148,174)	(193,287)	(316,785)
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	<u>(2,937,772)</u>	<u>616,055</u>	<u>1,370,509</u>	<u>(951,208)</u>	<u>(1,079,527)</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ (3,244,910)</u>	<u>878,080</u>	<u>1,222,335</u>	<u>(1,144,495)</u>	<u>(1,396,312)</u>

See Notes to Financial Statements

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

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008  
(With Comparative Totals For Year Ended June 30, 2007)

	PROGRAM SERVICES				
	Performing Arts	Museum	Education	Community Affairs	Center Sales and Event Services
Salaries, payroll taxes, and employee benefits	\$ 1,366,028	326,972	178,349	51,885	671,934
Professional fees and artist contracts	964,118	10,626	18,473	28,779	-
Advertising	3,962	14,385	-	2,192	11,287
Occupancy cost	465,728	49,344	30,272	384	80,704
Utilities	383,224	40,603	24,909	316	66,407
Cost of sales	-	-	-	-	-
Printing and publications	5,779	29,307	9,871	157	-
Bank charges and credit card fees	43,313	669	26	-	15,387
Supplies	34,643	11,435	2,864	475	37,853
Program service expenses	41,302	2,255	7,030	4,924	1,309
Interest expense	-	-	-	-	-
Postage and shipping	5,680	10,210	1,152	179	525
Depreciation	30,722	-	-	-	4,775
Contract services	14,670	1,322	811	2,243	62,680
Rental and maintenance of equipment	13,774	963	558	-	23,836
Telephone	16,447	3,564	3,831	2	12,290
Production expense	15,983	316	-	56,828	-
Installation	-	8,179	-	-	-
Small equipment purchases	4,910	485	297	-	793
Insurance	2,157	2,500	-	-	-
Public and community relations	164	29	-	-	-
Travel, training, and artistic research	7,091	3,464	622	-	1,786
Recruitment	-	-	-	-	-
Operation of California Club	-	-	-	-	-
Graphics (signage)	-	-	-	-	-
Trade shows and promotional events	-	-	-	-	-
Membership dues and subscriptions	921	594	50	-	237
Employee and volunteer relations	572	534	-	2,790	-
Taxes and licenses	672	-	-	-	4,910
Special and community events	-	16,297	-	-	-
Bad debt expense	-	-	-	-	1,500
Miscellaneous	9,237	3,168	5	335	960
<b>TOTAL EXPENSES</b>	<b>\$ 3,431,097</b>	<b>537,221</b>	<b>279,120</b>	<b>151,489</b>	<b>999,173</b>

See Notes to Financial Statements.

**SUPPORTING SERVICES**

Retail Operations	Total Program Services	Administration and Finance	Fundraising	Marketing	Total Supportive Services	Totals	
						2008	2007
20,763	2,615,931	562,915	192,076	223,618	978,609	3,594,540	3,458,011
-	1,021,996	48,910	1,602	48,857	99,369	1,121,365	1,628,814
-	31,826	-	1,500	157,812	159,312	191,138	227,099
-	626,432	7,680	2,560	3,328	13,568	640,000	640,000
-	515,459	6,319	2,106	2,738	11,163	526,622	595,811
-	-	-	-	-	-	-	295,884
-	45,114	2,899	7,133	67,648	77,680	122,794	122,111
2,339	61,734	2,573	1,042	-	3,615	65,349	81,716
40	87,310	10,195	4,311	4,574	19,080	106,390	112,630
146	56,966	-	690	432	1,122	58,088	88,913
-	-	130,276	-	-	130,276	130,276	123,645
-	17,746	1,486	5,580	22,212	29,278	47,024	35,948
-	35,497	9,616	-	-	9,616	45,113	38,774
-	81,726	206	69	89	364	82,090	96,543
-	39,131	45,884	47	61	45,992	85,123	98,579
-	36,134	4,305	2,732	2,763	9,800	45,934	62,030
-	73,127	-	153	-	153	73,280	28,672
-	8,179	-	-	-	-	8,179	9,305
-	6,485	4,552	25	33	4,610	11,095	11,026
-	4,657	44,963	-	-	44,963	49,620	49,448
-	193	-	18,469	445	18,914	19,107	26,967
153	13,116	1,603	105	669	2,377	15,493	15,574
-	-	8,090	-	-	8,090	8,090	6,385
-	-	-	13,361	-	13,361	13,361	10,790
-	-	-	129	1,841	1,970	1,970	951
-	-	-	-	-	-	-	3,445
-	1,802	3,024	1,970	235	5,229	7,031	11,308
-	3,896	8,752	-	-	8,752	12,648	8,769
-	5,582	2,480	-	180	2,660	8,242	6,212
-	16,297	-	-	-	-	16,297	13,987
-	1,500	-	-	-	-	1,500	65,121
(116)	13,589	2,826	3,603	259	6,688	20,277	13,369
<u>23,325</u>	<u>5,421,425</u>	<u>909,554</u>	<u>259,263</u>	<u>537,794</u>	<u>1,706,611</u>	<u>7,128,036</u>	<u>7,987,837</u>

See Notes to Financial Statements.

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

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2008

(With Comparative Totals For Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (193,287)	(316,785)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation expense	45,113	38,774
Realized (gain) loss on investments	167,571	-
Bad debt expense	281	-
Interest expense on note payable to City of Escondido	34,006	-
Contributions restricted for long-term purposes	-	-
Forgiveness of long-term debt with City of Escondido	-	-
(Increase) decrease in assets:		
Accounts receivable	(2,375)	32,425
Pledges receivable	8,604	4,798
Contributions receivable	(175,238)	-
Prepays	(36,702)	(19,231)
Inventory	(1,908)	(13,716)
Deposits	-	14,318
Increase (decrease) in liabilities:		
Accounts payable	(63,424)	54,637
Accrued expenses	16,316	96,285
Advance ticket sales and deposits	(111,004)	(96,344)
Artist contract payable	-	(125,000)
Deferred revenue	<u>1,109,867</u>	<u>99,550</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>797,820</u>	<u>(230,289)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(4,215)	(43,538)
Purchases of investments	(579,802)	(411,483)
Proceeds from sales and maturities of investments	<u>560,408</u>	<u>231,404</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>(23,609)</u>	<u>(223,617)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on line of credit	-	21,020
Interest paid on other debt	4,687	-
Principal paid on note payable	<u>(48,000)</u>	<u>(32,020)</u>
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<u>(43,313)</u>	<u>(11,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	730,898	(464,906)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>(97,683)</u>	<u>367,223</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 633,215</u>	<u>(97,683)</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 130,276</u>	<u>123,645</u>

See Notes to Financial Statements

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

Notes to Financial Statements

Year Ended June 30, 2008

## (1) **Organization and Summary of Significant Accounting Policies**

### **Nature of Activities**

The California Center for the Arts, Escondido, Foundation, Inc. (Foundation) 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 Foundation are ticket sales, food and beverage sales, a management fee from the City of Escondido, and donations.

### **Basis of Accounting**

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

### **Cash and Cash Equivalents**

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

### **Investments**

Under *SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

### **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.

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

## Notes to Financial Statements

(Continued)

### (1) Organization and Summary of Significant Accounting Policies, (Continued)

#### Pledges Receivable

Unconditional promises to give are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

#### Inventory

Inventory consists of: china, glasses, silverware, supplies, gift shop items and 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.

#### Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.

Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

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

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

## Notes to Financial Statements

(Continued)

### (1) **Organization and Summary of Significant Accounting Policies, (Continued)**

Pledges receivable and charitable remainder trusts in the accompanying 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.

#### **Property and Equipment**

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Expenses for maintenance and repairs are charged against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of 3 to 10 years.

#### **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 \$640,000 was determined by using the square footage of the facilities for the year ended June 30, 2008. The City also paid utilities on behalf of the Foundation in the amount of \$526,622 for the year ended June 30, 2008. See note 13 for further note disclosure.

#### **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, 2008 was \$191,138.

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

Notes to Financial Statements

(Continued)

**(1) Organization and Summary of Significant Accounting Policies, (Continued)**

**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, 2008 no provision for income taxes has been made.

**Functional Allocation of Expenses**

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

**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.

**Comparative Data**

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.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in banks. At various times during the year the Foundation maintains cash balances in its banks in excess of Federal Deposit Insurance Corporation (FDIC) insurable limits. The Foundation does not consider this to be a significant credit risk because it uses only high quality financial institutions.

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

Notes to Financial Statements

(Continued)

**(2) Cash and Cash Equivalents, (Continued)**

For the purposes of the statement of cash flows, cash and cash equivalents consisted of the following classifications:

	<u>2008</u>	<u>2007</u>
Unrestricted	\$630,367	(98,954)
Restricted for specific purposes	<u>2,848</u>	<u>1,271</u>
Total Cash and Cash Equivalents	<u>\$633,215</u>	<u>(97,683)</u>

**(3) Investments**

Investment securities are carried at fair value based on quoted prices in active markets and consist of the following at June 30, 2008:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 26,769	26,769
Equity mutual funds	504,867	543,858
Marketable equity securities	<u>469,022</u>	<u>512,557</u>
Total	<u>\$1,000,658</u>	<u>1,083,184</u>

Investment securities are carried at fair value based on quoted prices in active markets and consisted of the following at June 30, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 140,111	140,111
Equity mutual funds	347,512	472,095
Marketable equity securities	<u>481,515</u>	<u>619,153</u>
Total	<u>\$ 969,138</u>	<u>1,231,359</u>

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

Notes to Financial Statements

(Continued)

(3) **Investments, (Continued)**

A summary of return on investments consisted of the following for the year ended June 30, 2008:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 30,506	27,844
Net realized gain (loss)	(167,571)	160,113
Advisory fees	<u>(11,546)</u>	<u>(7,050)</u>
Total return (loss)	<u>\$(148,611)</u>	<u>180,907</u>

(4) **Pledges Receivable**

Pledges are expected to be realized in the following periods:

	<u>2008</u>	<u>2007</u>
In one year or less	<u>\$1,623</u>	<u>10,227</u>

(5) **Inventory**

Inventory consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Gift shop	\$ 31,008	27,855
Food and beverage	23,524	23,362
China and glass	<u>65,349</u>	<u>66,758</u>
Total	<u>\$119,881</u>	<u>117,975</u>

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

Notes to Financial Statements

(Continued)

**(6) Property and Equipment**

Property and equipment consisted of the following:

	<u>2008</u>	<u>2007</u>
Equipment and furniture	\$1,243,866	1,239,651
Leasehold improvements	<u>85,546</u>	<u>85,546</u>
	1,329,412	1,325,197
Less accumulated depreciation	<u>(1,187,220)</u>	<u>(1,142,107)</u>
Total	<u>\$ 142,192</u>	<u>183,090</u>

Depreciation expense for the year ended June 30, 2008 was \$45,113.

**(7) Line of Credit**

The Foundation has a \$1,550,000 line of credit with Wells Fargo Bank. Amounts borrowed under this agreement bear interest at the bank's prime rate. As of June 30, 2008, the prime rate was 5.00%. At June 30, 2008, \$1,500,020 was outstanding on this line. The line is secured by all of the Foundation's unrestricted net assets and is guaranteed by the City of Escondido. The line of credit maturity date of August 10, 2008 has been extended pending a consideration by the parties to refinance the line of credit into another form of financing.

**(8) Long-Term Debt**

The Foundation has an unsecured note payable with the City of Escondido in the amount of \$500,000. The note bears simple interest of 5.5% and the principal and interest are due Mach 21, 2009. The loan will be forgiven in part whenever the Foundation receives a gift or irrevocable pledge to its endowment fund or receives a rebate attributable to utility cost reductions. The terms of the note payable for the City of Escondido forgive the principal amount due by the sum of twenty percent of the value of each such gift. Through the year ended June 30, 2008, the City of Escondido has forgiven \$160,439. The outstanding balance of the note payable, including accrued interest was \$513,256 as of June 30, 2008.

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

Notes to Financial Statements

(Continued)

**(9) Note Payable**

The Foundation entered into a note agreement with Wells Fargo Bank on March 12, 2007 in the amount of \$140,000. The note bears interest at a variable rate equal to the bank's prime rate. As of June 30, 2008, the prime rate was 5.00%. The note is payable in monthly installments of \$4,000 through February 15, 2010. The loan is secured by all the Foundation's inventory, unrestricted accounts receivable, equipment, and general intangibles. As of June 30, 2008, the carrying amount of the Foundation's collateral for the loan was \$80,000.

Minimum maturities on the note are as follows:

Year ending <u>June 30</u>	
2009	\$ 48,000
2010	<u>32,000</u>
	<u>\$ 80,000</u>

**(10) Special Events**

Net special events revenue consists of the following:

	<u>2008</u>	<u>2007</u>
Revenues	\$ 94,325	49,825
Direct expenses	<u>(22,595)</u>	<u>(22,363)</u>
Net Amount	<u>\$ 71,730</u>	<u>27,462</u>

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

## Notes to Financial Statements

(Continued)

### (11) 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 prorate 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 \$65,000 as of June 30, 2008. No provision for the potential change in the value of the trust has been reflected in the statement of activities.

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 \$100,000 as of June 30, 2008. No provision for the potential change in the value of the trust has been reflected in the statement of activities.

### (12) Prior Period Adjustment

Temporarily restricted net assets at July 1, 2007 have been adjusted to reflect a contribution from the City of Escondido of \$445,105 that was not accrued for the fiscal year ended June 30, 2007. The Foundation collected the contribution from the City during the fiscal year ended June 30, 2008.

### (13) Economic Dependency

The Foundation is economically dependent on the City of Escondido. In addition to the contributed services and use of facilities described in Note 1, for the year ended June 30, 2008, significant revenue was received from the City of Escondido in the form of a management fee of \$1,300,035. Additionally, as disclosed in note 7, the City of Escondido is the guarantor on the Foundation's line of credit with Wells Fargo Bank. As of June 30, 2008, the outstanding amount payable on the line of credit was \$1,550,020.

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

Notes to Financial Statements

(Continued)

(14) Net Assets Released from Restrictions

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

	<u>2008</u>	<u>2007</u>
Satisfaction of time restrictions:		
Management fee for operations	\$ 445,104	-
Satisfaction of program restrictions:		
Community events	164,850	102,900
Annual fund	<u>5,063</u>	<u>80,000</u>
Total	<u>\$ 615,017</u>	<u>182,900</u>

(15) Insurance and Contingencies

The Foundation purchased commercial property liability coverage in the amount of \$5,250,000 with a deductible of \$1,000 per occurrence. Additional coverage is included for accounts receivable in the amount of \$250,000, employee personal effects in the amount of \$50,000, fine arts in the amount of \$50,000, and legal liability in the amount of \$25,000.

The Foundation purchased executive protection (Crime) liability, which included theft, forgery and fraud coverage, in the amount of \$500,000 per occurrence with a \$5,000 deductible.

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

Notes to Financial Statements

(Continued)

(16) Net Assets

	<u>2008</u>	<u>2007</u>
Unrestricted net assets:		
Invested in property and equipment net of accumulated depreciation	\$ 142,192	183,090
Undesignated - available for programs	<u>(3,387,102)</u>	<u>(3,120,862)</u>
Total unrestricted net assets (deficit)	<u>(3,244,910)</u>	<u>(2,937,772)</u>
Temporarily restricted net assets:		
Time restrictions:		
Contribution from City for operations deficit	620,342	-
Program restrictions:		
Performing arts sponsorships	105,000	155,000
Opening gala	14,700	6,350
Annual fund	-	5,063
Education	27,500	2,500
Membership	500	-
Community events	109,000	-
Museum exhibitions	<u>1,038</u>	<u>2,038</u>
Total temporarily restricted net assets	<u>878,080</u>	<u>170,951</u>
Permanently restricted net assets:		
Charitable Remainder Unitrust that will provide proceeds upon final settlement of an endowment. All gains will be used to acquire art pieces.	65,000	65,000
Life Insurance Trust that will provide proceeds upon death of the settler to establish an endowment fund.	100,000	100,000
Investment in perpetuity, the income and interest earned from the Endowment Fund is restricted until the balance of the fund reaches \$5,000,000.	<u>1,057,335</u>	<u>1,205,509</u>
Total permanently restricted net assets	<u>1,222,335</u>	<u>1,370,509</u>
Total net assets (deficit)	<u>\$(1,144,495)</u>	<u>(1,396,312)</u>

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**SUPPLEMENTARY INFORMATION**

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

**SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2008

	<u>Total per Financial Statements</u>				<u>Net Center Activities</u>
	<u>Total</u>	<u>Endowment</u>	<u>Center Activities</u>	<u>Eliminations</u>	
<b>REVENUE AND SUPPORT</b>					
Ticket sales	\$ 1,055,372	-	1,055,372	-	1,055,372
Center sales - food and beverage, net	811,449	-	811,449	-	811,449
City of Escondido:		-			
Management fee	1,300,035	-	1,300,035	(1,300,035) <sup>①</sup>	-
Occupancy	640,000	-	640,000	(640,000) <sup>②</sup>	-
Utilities	526,622	-	526,622	(526,622) <sup>②</sup>	-
Other contributions	620,342	-	620,342	(620,342) <sup>②</sup>	-
Annual fund	999,687	-	999,687	-	999,687
Rentals - studio, theater and room, net	865,325	-	865,325	-	865,325
Investment income (loss)	(148,611)	(148,174) <sup>③</sup>	(437)	-	(437)
Government grants	90,000	-	90,000	-	90,000
Special events, net of direct expenses	71,730	-	71,730	-	71,730
Miscellaneous, net	102,798	-	102,798	-	102,798
<b>TOTAL REVENUE AND SUPPORT</b>	<b>6,934,749</b>	<b>(148,174)</b>	<b>7,082,923</b>	<b>(3,086,999)</b>	<b>3,995,924</b>
<b>EXPENSES</b>					
<b>PROGRAM SERVICES</b>					
Performing arts	3,431,097	-	3,431,097	(879,674)	2,551,423
Museum	537,221	-	537,221	(89,947)	447,274
Education	279,120	-	279,120	(55,181)	223,939
Community affairs	151,489	-	151,489	(700)	150,789
Center sales and event services	999,173	-	999,173	(151,886)	847,287
Retail operations	23,325	-	23,325	-	23,325
<b>TOTAL PROGRAM SERVICES</b>	<b>5,421,425</b>	<b>-</b>	<b>5,421,425</b>	<b>(1,177,388)</b>	<b>4,244,037</b>
<b>SUPPORTING SERVICES</b>					
Administration and finance	909,554	-	909,554	(23,615)	885,939
Fundraising	259,263	-	259,263	(4,666)	254,597
Marketing	537,794	-	537,794	(6,066)	531,728
<b>TOTAL SUPPORTING SERVICES</b>	<b>1,706,611</b>	<b>-</b>	<b>1,706,611</b>	<b>(34,347)</b>	<b>1,672,264</b>
<b>TOTAL EXPENSES</b>	<b>7,128,036</b>	<b>-</b>	<b>7,128,036</b>	<b>(1,211,735)<sup>③</sup></b>	<b>5,916,301</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (193,287)</b>	<b>(148,174)</b>	<b>(45,113)</b>	<b>(1,875,264)</b>	<b>(1,920,377)<sup>④</sup></b>

① Management agreement with the City of Escondido specifies that the Endowment is the sole asset of the Center. Any income (or loss) associated with the endowment belongs to the Center.

② Contributions from the City have been eliminated to demonstrate the Center's activities before subsidies from the City.

③ Eliminations in expense include depreciation expense, which is specifically excluded from the subsidy consideration in the Center's management agreement with the City as well as occupancy costs and utilities expenses contributed by the City.

④ Uneliminated amounts represent cash payments and year end accrual

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

**OTHER INFORMATION**

Year Ended June 30, 2008

**TICKET SALES**

Performing arts ticket sales	\$	970,669
Patron user fees		141,432
Performing arts ticket services		34,464
Education school performances		<u>20,005</u>

**TOTAL TICKET SALES** 1,166,570

**CENTER SALES - FOOD AND BEVERAGE, NET**

Conference center		777,240
Theater concessions		<u>34,209</u>

**TOTAL CENTER SALES - FOOD AND BEVERAGE, NET** 811,449

**RENTALS - STUDIO, THEATER AND ROOM, NET**

Theater rentals		168,453
Conference room and rental		248,310
Labor reimbursement		171,794
Space rental		34,191
Studio rental		58,991
Sale of services to rental clients		<u>41,773</u>

**TOTAL RENTALS - STUDIO, THEATER AND ROOM, NET** 723,512

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