ACCOUNTING + CONSULTING

SEGERSTROM CENTER FOR THE ARTS

Financial Statements
For Year Ended June 30, 2017
(with Summarized Comparative Information for the Year Ended June 30, 2016)

(With Independent Auditor's Report Thereon)

KSJGCPA.COM

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

TABLE OF CONTENTS — PAGE NO.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Segerstrom Center for the Arts

We have audited the accompanying financial statements of Segerstrom Center for the Arts (the Center), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KSJG, LLP

November 16, 2017

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

SEGERSTROM CENTER FOR THE ARTS

Statement of Financial Position
June 30, 2017
(with Summarized Comparative Information as of June 30, 2016)

	Unrestricted			Temporarily	Permanently	2017	2016
ASSETS	**Operating**	**Other**	**Total**	**Restricted**	**Restricted**	**Total**	**Total**
Cash and cash equivalents	$ 8,391,808	$ 4,400	$ 8,396,208	$ --	$ 1,667,376	$ 10,063,584	$ 12,864,661
Investments (Note 2)	15,777,784	119,911,393	135,689,177	22,527,591	38,396,058	196,612,826	177,743,100
Accounts receivable	829,792	--	829,792	--	--	829,792	1,329,792
Prepaid expenses	1,229,440	--	1,229,440	--	--	1,229,440	1,753,188
Contributions receivable, net (Notes 2 and 3)	283,829	--	283,829	15,604,857	--	15,888,686	19,337,045
Beneficial interest in irrevocable deferred gifts (Note 2)	--	--	--	18,722,860	--	18,722,860	20,082,828
Fixed assets (Note 4)	--	214,518,133	214,518,133	--	--	214,518,133	218,892,232
Total assets	$ 26,512,653	$ 334,433,926	$ 360,946,579	$ 56,855,308	$ 40,063,434	$ 457,865,321	$ 452,002,846

(Statement of financial position continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Statement of Financial Position
(Continued)
June 30, 2017
(with Summarized Comparative Information as of June 30, 2016)

LIABILITIES AND NET ASSETS	Unrestricted Operating	Unrestricted Other	Unrestricted Total	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Accounts payable and accrued liabilities	$ 3,950,958	$ 450,945	$ 4,401,903	$ --	$ --	$ 4,401,903	$ 3,680,721
Current portion of bonds payable (Note 7)	--	1,410,000	1,410,000	--	--	1,410,000	2,340,000
Bonds payable (Note 7)	--	164,590,283	164,590,283	--	--	164,590,283	175,585,909
Unamortized bond premium (Note 7)	--	19,478,702	19,478,702	--	--	19,478,702	11,072,460
Deferred revenue	15,083,890	--	15,083,890	--	--	15,083,890	13,810,484
Annuity payment liability	--	43,957	43,957	--	--	43,957	48,699
Total liabilities	19,034,848	185,973,887	205,008,735	--	--	205,008,735	206,538,273
Net assets:							
Unrestricted net assets (Note 5)							
Undesignated	3,977,805	144,626,299	148,604,104	--	--	148,604,104	141,266,039
Designated for general reserves	3,500,000	--	3,500,000	--	--	3,500,000	3,500,000
Designated for building repairs	--	3,833,740	3,833,740	--	--	3,833,740	4,373,560
Total unrestricted net assets	7,477,805	148,460,039	155,937,844	--	--	155,937,844	149,139,599
Temporarily restricted net assets	--	--	--	34,327,717	--	34,327,717	38,795,473
Designated temporarily restricted net assets (Notes 5 and 6)	--	--	--	22,527,591	--	22,527,591	17,785,059
Total temporarily restricted net assets	--	--	--	56,855,308	--	56,855,308	56,580,532
Permanently restricted net assets (Note 6)	--	--	--	--	40,063,434	40,063,434	39,744,442
Total net assets	7,477,805	148,460,039	155,937,844	56,855,308	40,063,434	252,856,586	245,464,573
Total liabilities and net assets	$ 26,512,653	$ 334,433,926	$ 360,946,579	$ 56,855,308	$ 40,063,434	$ 457,865,321	$ 452,002,846

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Statement of Activities
Year Ended June 30, 2017
(with Summarized Comparative Information for the Year Ended June 30, 2016)

	Unrestricted			Temporarily	Permanently	2017	2016
	Operating	Other	Total	Restricted	Restricted	Total	Total
Program revenues:							
Center presentations	$ 33,573,003	$ --	$ 33,573,003	$ --	$ --	$ 33,573,003	$ 41,451,184
Hall rental operations	9,212,590	--	9,212,590	--	--	9,212,590	9,649,444
Education programs	1,964,329	--	1,964,329	--	--	1,964,329	1,409,552
	44,749,922	--	44,749,922	--	--	44,749,922	52,510,180
Expenses:							
Center presentations	32,775,189	5,343,258	38,118,447	--	--	38,118,447	44,273,050
Hall rental operations	8,306,596	4,331,856	12,638,452	--	--	12,638,452	13,120,226
Education programs	3,374,659	135,720	3,510,379	--	--	3,510,379	3,006,252
Bond issuance cost amortization	157,588	--	157,588	--	--	157,588	127,006
Interest and refinancing expense	3,345,341	--	3,345,341	--	--	3,345,341	3,324,691
Contributed services and gifts in-kind (Note 1)	445,339	--	445,339	--	--	445,339	74,663
Management and general	6,508,005	152,685	6,660,690	--	--	6,660,690	6,591,447
	54,912,717	9,963,519	64,876,236	--	--	64,876,236	70,517,335
Program revenues less expenses	(10,162,795)	(9,963,519)	(20,126,314)	--	--	(20,126,314)	(18,007,155)
Contributions, investment income, and other expenses:							
Contributions and special events	8,708,087	261,811	8,969,898	4,454,807	318,992	13,743,697	14,641,976
Contributed services and gifts in-kind	445,339	--	445,339	--	--	445,339	74,663
Net assets released from donor restrictions	611,190	7,039,910	7,651,100	(7,651,100)	--	--	--
Net assets released from timing restrictions (Note 6)	--	2,900,000	2,900,000	(2,900,000)	--	--	--
Endowment and other investment income (Note 2)	2,495,856	8,769,622	11,265,478	7,642,532	--	18,908,010	(2,792,591)

(Statement of activities continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Statement of Activities
(Continued)
Year Ended June 30, 2017
(with Summarized Comparative Information for the Year Ended June 30, 2016)

	Unrestricted			Temporarily	Permanently	2017	2016
	Operating	Other	Total	Restricted	Restricted	Total	Total
Contributions, investment income, and other expenses (continued):							
Change in value of irrevocable deferred gifts	--	--	--	(1,359,968)	--	(1,359,968)	220,098
Transfers - repair reserve, endowment	1,700,000	(1,700,000)	--	--	--	--	--
Fund-raising and special event expenses	(3,720,431)	(586,825)	(4,307,256)	--	--	(4,307,256)	(4,018,493)
Allowance for uncollectible contributions receivable	--	--	--	88,505	--	88,505	(3,536,406)
	10,240,041	16,684,518	26,924,559	274,776	318,992	27,518,327	4,589,247
Changes in net assets	77,246	6,720,999	6,798,245	274,776	318,992	7,392,013	(13,417,908)
Net assets at beginning of year:							
Unrestricted	7,400,559	141,739,040	149,139,599	--	--	149,139,599	156,799,186
Temporarily restricted	--	--	--	56,580,532	--	56,580,532	62,568,419
Permanently restricted	--	--	--	--	39,744,442	39,744,442	39,514,876
Designated reserves	--	--	--	--	--	--	--
Net assets at end of year	$ 7,477,805	$ 148,460,039	$ 155,937,844	$ 56,855,308	$ 40,063,434	$ 252,856,586	$ 245,464,573

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Changes in net assets	$ 7,392,013	$ (13,417,908)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	10,060,219	9,976,600
Amortization of bond issuance cost	157,588	127,006
Net unrealized (gain) loss on marketable securities	(10,462,798)	8,926,654
Changes in operating assets and liabilities:		
Decrease in accounts receivable	500,000	370,534
Decrease/(increase) in prepaid expenses	523,748	(450,266)
Decrease in contributions receivable, net	3,448,359	1,044,884
Decrease/(increase) in beneficial interest in irrevocable deferred gifts	1,359,968	(220,098)
Increase/(decrease) in accounts payable and accrued liabilities	721,182	(2,401,425)
Increase/(decrease) in deferred revenue	1,273,406	(1,531,177)
(Decrease) in annuity payment liability	(4,742)	(69,759)
Net cash provided by operating activities	14,968,943	2,355,045
Cash flows from investing activities:		
Sales and maturities of investments	34,289,114	13,329,445
Purchases of investments	(42,696,042)	(15,898,530)
Purchases of fixed assets	(5,686,120)	(893,892)
Net cash (used in) investing activities	(14,093,048)	(3,462,977)
Cash flows from financing activities:		
Bond issuance costs	(393,214)	(431,424)
Bond premium issuance	8,406,242	10,800,151
Proceeds from bond financing	48,000,000	42,000,000
Repayments of long-term debt	(59,690,000)	(54,180,000)
Net cash (used in) financing activities	(3,676,972)	(1,811,273)
Net (decrease) in cash and cash equivalents	(2,801,077)	(2,919,205)
Cash and cash equivalents, beginning of year	12,864,661	15,783,866
Cash and cash equivalents, end of year	$ 10,063,584	$ 12,864,661
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 5,564,669	$ 3,229,764

See accompanying notes to financial statements

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Center elected to change its name to Segerstrom Center for the Arts on January 12, 2011 in recognition of contributions from the Segerstrom family. The name change was subsequently formally approved by the State of California on July 27, 2011.

Basis of Presentation - The financial statements of the Center have been prepared on the accrual basis of accounting.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations. Amounts reflected in other unrestricted net assets include existing facilities and the Center's board designated endowment.

- *Temporarily Restricted Net Assets* - Net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event.

- *Permanently Restricted Net Assets* - Net assets subject to donor-imposed restrictions that require the principal balance to be kept in perpetuity while permitting the Center to use or expend part or all of the income derived from the assets.

The Center records gifts of cash and other assets as temporarily restricted contributions 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as temporarily restricted with the corresponding amount reclassified to unrestricted net assets in the accompanying statement of activities.

Endowment monies are identified in the accompanying financial statements as both permanently restricted net assets, which include donor-restricted contributions, and as temporarily restricted net assets, which include unspent investment income on endowments and board-designated additions to endowment.

(Note 1 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Marketable Securities - The Center reports its investments in all debt securities and in equity securities with readily determinable market values at fair value, using quoted market prices. Investment income from permanently restricted investments is reported as temporarily restricted income unless it is appropriated for expenditure, in which case it is recognized as unrestricted income. Unrealized and realized gains or losses have been recorded as return on endowment and other investments in the statement of activities.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interest in Irrevocable Deferred Gifts - Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Center is also a beneficiary in certain trusts. The Center recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Center is beneficiary but is not the trustee. The present value discount on those future benefits is computed using the three-year U.S. Treasury note rate as of the balance sheet date (1.55% as of June 30, 2017). Changes in the present value discount amount and overall value of the Center's beneficial interest in these trusts are recognized in the statement of activities. When these gifts are revocable in nature, they are not reflected in the financial statements. The Center also recognizes as revenue the cash surrender value of the insurance policies for which the Center is the beneficiary.

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

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

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

The Center also has received donations of various noncash assets, such as legal fees and merchandise that were used for purposes of operating activities. Contributed services and gifts in-kind in the amounts of $445,339 and $74,663 are recorded as income and expense in the statement of activities for the years ended June 30, 2017 and 2016, respectively. Additionally, the Center received other noncash donations that would not ordinarily be purchased by the Center.

(Note 1 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Box office receipts and theater rental income attributable to future activities are included in cash and cash equivalents or investments and reflected as deferred revenue until earned.

Program Expenses - Program expenses on the statement of activities for the years ended June 30, 2017 and 2016 include Center presentations, hall rental operations, and educational programs totaling $54,267,278 and $60,399,528, respectively.

Advertising Expenses - The Center pays for the advertising of Broadway shows and other presentations held at the Center in advance of the actual running of the event. These advanced payments are recorded as prepaid expenses on the Center's statement of financial position until the running of the show or presentation ends. At that point, the Center reclassifies the entire amount of prepaid advertising expenses related to that particular show or presentation as program expense in the Center's statement of activities. Total advertising expenses incurred during the fiscal years ended June 30, 2017 and 2016 were $4,820,728 and $4,721,787, respectively.

Income Taxes - The Center is exempt from Federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of the California Revenue and Taxation Statute. However, the Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. As a matter of course, various taxing authorities, including the IRS, have the authority to regularly audit the Center. There were no tax years open to examination by major tax jurisdictions as of June 30, 2017. Management believes that the Center's tax positions comply with applicable tax law and has adequately provided for these matters.

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

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

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data - The financial statements include 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 for the year ended June 30, 2016 from which the summarized information was derived.

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

On July 1, 2008, the Center adopted the Fair Value Measurements provisions of the ASC, for fair value measurements of financial assets and financial liabilities (Notes 2 and 3), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Center's Level 1 assets include domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and alternative equity 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 does not hold any Level 2 assets.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued) –

- 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 and contributions receivable.

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

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

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

ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. The Center is in the process of assessing the potential impact of the ASU on its financial statements.

(Note 1 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued) – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update is meant to simplify and improve how a not-for-profit organization classifies its net assets, presents its cash flows, and reports its investment returns. In addition, the update provides for enhanced disclosures about the liquidity and availability of an organization's assets, the classification of its expenses by both nature and function, and the methodology of allocating such expenses to programs and supporting services. The new standard will be effective for reporting periods beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of the adoption of this standard.

Reclassifications - The financial statements for the year ended June 30, 2016 contain certain reclassifications, which have no effect on changes in net assets, to conform to the current period presentation at June 30, 2017.

Subsequent Events - The Center evaluated subsequent events through November 16, 2017, the date these financial statements were issued. Except for the event described 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
(Continued)
June 30, 2017 and 2016

NOTE 2 - ASSETS RECORDED AT FAIR VALUE

Investments as of June 30, 2017 and 2016 consist of domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and alternative equity mutual funds.

The following table sets forth by level, within the fair value hierarchy, the Center's assets at fair value as of June 30, 2017 and 2016:

	Assets at Fair Value as of June 30, 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Domestic equity mutual funds	$ 57,803,555	$ --	$ --	$ 57,803,555
International equity mutual funds	29,873,489	--	--	29,873,489
Fixed income mutual funds	93,243,563	--	--	93,243,563
Alternative equity mutual funds	15,692,219	--	--	15,692,219
	196,612,826	--	--	196,612,826
Contributions receivable	--	--	15,888,686	15,888,686
Irrevocable deferred gifts	--	--	18,722,860	18,722,860
Total	$ 196,612,826	$ --	$ 34,611,546	$ 231,224,372

	Assets at Fair Value as of June 30, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Domestic equity mutual funds	$ 62,273,053	$ --	$ --	$ 62,273,053
International equity mutual funds	25,807,113	--	--	25,807,113
Fixed income mutual funds	81,209,370	--	--	81,209,370
Alternative equity mutual funds	8,453,564	--	--	8,453,564
	177,743,100	--	--	177,743,100
Contributions receivable	--	--	19,337,045	19,337,045
Irrevocable deferred gifts	--	--	20,082,828	20,082,828
Total	$ 177,743,100	$ --	$ 39,419,873	$ 217,162,973

(Note 2 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Center's Level 3 assets for the years ended June 30, 2017 and 2016.

	Beneficial Interest in Irrevocable Deferred Gifts	
	2017	***2016***
Balance, beginning of year	$ 20,082,828	$ 19,862,730
Contributions	87,600	--
Payments received	(221,250)	--
Write-offs	(20,000)	--
Unrealized (loss) gain	(1,206,318)	220,098
Balance, end of year	$ 18,722,860	$ 20,082,828

	Contributions Receivable	
	2017	***2016***
Balance, beginning of year	$ 19,337,045	$ 20,381,928
New pledges	4,454,546	5,713,103
Payments received	(7,991,671)	(4,030,370)
Write-offs	(118,500)	(3,757,286)
Change in allowance for uncollectible pledges	207,005	220,880
Change in present value discount amount	261	808,790
Balance, end of year	$ 15,888,686	$ 19,337,045

(Note 2 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)

Investment income (loss) for the years ended June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Interest and dividend income	$ 3,835,744	$ 3,195,072
Investment fees	(148,685)	(189,537)
Realized and unrealized gains (losses)	15,220,951	(5,798,126)
	$ 18,908,010	$ (2,792,591)

NOTE 3 - 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 for all past due unconditional promises to give and 10 percent of all unconditional promises to give expected to be collected in the future. Unconditional promises to give that are expected to be collected in future years are also recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the three-year U.S. Treasury note rate applicable in the year in which the promise was made. Amortization of the discount is included in contributions revenue, which was 1.55% for the year ended June 30, 2017.

Included in contributions receivable at June 30, 2017 and 2016 are the following unconditional promises to give:

	2017	2016
Amounts due in:		
Less than one year	$ 5,176,175	$ 7,185,007
One to five years	10,331,497	11,601,626
More than five years	3,240,000	3,616,665
Total promises to give	18,747,672	22,403,298
Less: allowance for uncollectibles	(2,255,885)	(2,462,891)
Less: unamortized discount	(603,101)	(603,362)
Net contributions receivable	$ 15,888,686	$ 19,337,045

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 4 - FIXED ASSETS

Fixed assets at June 30, 2017 and 2016 consist of the following:

	2017	2016
Land	$ 10,605,607	$ 10,605,607
Building - theater I and II	291,553,172	291,201,383
Equipment and furniture	46,341,776	44,875,506
Fine arts	1,100,000	1,100,000
Plaza/CDI Construction-in-Progress (CIP)	3,868,061	--
Total	353,468,616	347,782,496
Less: accumulated depreciation	(138,950,483)	(128,890,264)
	$ 214,518,133	$ 218,892,232

Depreciation expense totaled $10,060,219 and $9,976,600 for fiscal years ended June 30, 2017 and 2016, respectively.

NOTE 5 - DESIGNATED NET ASSETS

Through the budgetary process, the Center has designated funds for specific purposes which are presented in the accompanying statement of financial position as unrestricted net assets.

Net assets designated for general reserves have been allocated to provide for extraordinary operational expenses when they occur. There were no additions to the reserve during fiscal years 2017 and 2016, respectively.

Net assets designated for building repairs and replacement have been allocated to provide for long-term maintenance of the facility and replacement of theatrical and other equipment. Additions to the reserve totaled $1,260,273 and $1,536,057, including interest earned and unrealized gains on these funds of $60,273 and $36,057 during fiscal years 2017 and 2016, respectively. The reserve was reduced by $1,800,093 and $528,337 for capital improvements during fiscal years 2017 and 2016, respectively.

Board designated quasi-endowment funds have been allocated by the Board to provide for long-term general reserves. This fund increased (decreased) by $4,742,532 and $(5,247,049) during the fiscal years 2017 and 2016, respectively.

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 6 - ENDOWMENT

In 2008, the Center adopted the Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and Enhanced Disclosures for All Endowment Funds (the "FSP") provisions of the ASC. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Center.

The FSP provides guidance with respect to the accounting for donor-restricted endowment funds subject to UPMIFA, which the State of California has enacted. In addition, the FSP requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the FSP, 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 permanently restricted net assets.

The Center's endowment consists of 28 individual funds established for a variety of purposes.

Changes in Endowment Net Assets for the Year Ending June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
July 1, 2016	$ --	$ 17,785,059	$ 39,744,442	$ 57,529,501
Support:				
Contributions	--	--	264,250	264,250
Gift annuity adjustment	--	--	4,742	4,742
Life insurance	--	--	50,000	50,000
Investment return:				
Investment income	--	1,248,394	--	1,248,394
Investment fees	--	(148,685)	--	(148,685)
Net appreciation (realized and unrealized)	--	6,542,823	--	6,542,823
Appropriation of endowment				
for expenditure	2,900,000	(2,900,000)	--	--
Expenditure of appropriated funds	(2,900,000)	--	--	(2,900,000)
	$ --	$ 22,527,591	$ 40,063,434	$ 62,591,025

(Note 6 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 6 - ENDOWMENT (Continued)

Changes in Endowment Net Assets for the Year Ending June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	$ --	$ 23,032,108	$ 39,514,877	$ 62,546,985
Support:				
Contributions	--	--	159,806	159,806
Gift annuity adjustment	--	--	69,759	69,759
Investment return:				
Investment income	--	928,573	--	928,573
Investment fees	--	(189,537)	--	(189,537)
Net depreciation (realized and unrealized)	--	(3,186,085)	--	(3,186,085)
Appropriation of endowment for expenditure	2,800,000	(2,800,000)	--	--
Expenditure of appropriated funds	(2,800,000)		--	(2,800,000)
	$ --	$ 17,785,059	$ 39,744,442	$ 57,529,501

The Center had no reclassifications of net assets from unrestricted to temporarily restricted at July 1, 2009 as a result of the enactment of UPMIFA as all endowment net assets previously released from restriction had been appropriated for expenditure.

Return Objectives and Risk Parameters

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

(Note 6 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 6 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center's investment policy includes an endowment spending rate up to 5 percent of the endowment funds' market value over a rolling twelve-quarter average. This spending rate constitutes the Board's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the immediate spending of a portion of the income of the portfolio, provide a target rate of return for the Endowment Fund for the Center, and provide a sustainable spending level that will allow for support of the Center's initiatives in fulfilling its mission, while maintaining the purchasing power of the Endowment Fund's assets. During the year ended June 30, 2017, the endowment draw taken was $2,900,000 or 5 percent for the year ended June 30, 2017, as reflected in the statement of activities. During the year ended June 30, 2016, the endowment draw taken was $2,800,000 or 5 percent for the year ended June 30, 2016, as reflected in the statement of activities.

NOTE 7 - BONDS PAYABLE

On July 8, 2004, the Center caused $180,000,000 of Auction Rate tax-exempt bonds to be issued by the California Infrastructure and Economic Development Bank (the "I Bank"). The bonds, referenced as 2004 Series A ($70,000,000), 2004 Series B ($65,000,000), and 2004 Series C ($45,000,000), mature on July 1, 2034.

On March 26, 2007, the Center caused $85,000,000 of Auction Rate tax-exempt bonds to be issued by the I Bank. The bonds, referenced as 2007 Series A ($45,000,000) and 2007 Series B ($40,000,000), also mature on July 1, 2034.

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

(Note 7 continued on the following page)

NOTE 7 - BONDS PAYABLE (Continued)

Payment of the bonds was insured by Financial Guarantee Insurance Corporation (FGIC) and, as a result, the bonds carried an AAA rating. The premium for the FGIC insurance, which was paid in advance, was required to be paid by the Center. During 2008, FGIC's rating was downgraded from AAA to junk status and the credit enhancement (the FGIC insurance) was deemed worthless. Accordingly, the Center wrote off the remaining $8,754,733 of unamortized insurance premiums and issuance costs. As a result of the downgrade, the Center caused the bonds to be refinanced and enhanced with letters of credit from three financial institutions.

As indicated in the previous paragraph, on July 2, 2008, the Center caused the Auction Rate tax-exempt bonds to be refinanced by the I Bank by the issuance of its $240,000,000 tax-exempt Variable Rate Demand Bonds. These bonds, referenced as 2008 Series A ($90,000,000), 2008 Series B ($90,000,000), and 2008 Series C ($60,000,000), mature on July 1, 2034 and bear interest at Daily and Weekly Interest Rates as determined by the Remarketing Agents for the bonds. The proceeds of these bonds was loaned by the I Bank to the Center at an interest rate equal to the rate borne by the bonds and were used by the Center to pay the first loan from the I Bank in full. The bonds are enhanced by letters of credit from three financial institutions, one bank to each Series. The letters of credit had an expiration date of July 2, 2011, and the bonds are subject to redemption or refinance at that time, unless existing enhancements are required.

The financial institutions issuing the letters of credit had requested that the Center annually make mandatory payments of a portion of the principal of the loan (with a corresponding redemption of the bonds). Effective December 4, 2009, the Center signed an amendment to the reimbursement agreement which had minimum payment requirements of $2,000,000 for the periods of July 1, 2010 and July 1, 2011. During the year ended June 30, 2010, the Center made a voluntary payment of a portion of the loan, with a corresponding partial redemption of the bonds, in the amount of $7,500,000.

In June 2011, since the Center's letters of credit were set to expire on July 2, 2011, the Center refinanced the remaining unamortized balance of its 2008 Series A ($84,835,000) and 2008 Series B ($84,835,000) bonds into three bonds, 2008 Series A ($72,335,000), 2008 Series B ($72,335,000), and 2008 Series D ($25,000,000). These bonds mature on July 1, 2034 and bear interest at Daily and Weekly Interest Rates as determined by the Remarketing Agents for the bonds. The 2008 Series A bonds are enhanced by a letter of credit from Bank of America, and the 2008 Series B and D bonds were directly purchased by Wells Fargo Bank and Union Bank, respectively. The letter of credit and direct purchase commitments expired on July 1, 2014, and the bonds are subject to redemption or refinance at that time.

(Note 7 continued on the following page)

NOTE 7 - BONDS PAYABLE (Continued)

Also in June 2011, the Center refinanced the remaining unamortized balance of its 2008 Series C ($56,550,000) bond payable. The Center elected to refinance $28,000,000 of the 2008 Series C bond and paid down $28,550,000. The $28,000,000 was refinanced with a five year fixed rate bond 2011 Series A. There is no Letter of Credit associated with the 2011 Series A bond; instead the bond is collateralized by the Center's future gross revenues (donations, investment income, and operating revenues). The 2011 Series A bond was issued with a 5.00% coupon rate with a 4.00% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $1,253,593. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the 5 year life of the bond. The 2011 Series A bond matured on July 1, 2016.

In June 2014, since the Center’s letters of credit were set to expire on July 1, 2014, the Center refinanced the remaining unamortized balance of its 2008 Series A ($70,100,000), 2008 Series B ($70,100,000), and 2008 Series D ($24,230,000) bonds into three bonds, 2008 Series A ($70,100,000), 2008 Series B ($70,100,000), and 2008 Series D ($24,230,000). These bonds bear interest at Monthly Interest Rates at 70% of the 30-Day LIBOR Rate (0.15% at June 30, 2014) plus a spread of 105 basis points. The 2008 Series A, B and D bonds were directly purchased by US Bank, Wells Fargo and BBVA Compass Bank, respectively. The direct purchase commitments originally set to expire on July 1, 2017 were extended to July 1, 2019, and the bonds are subject to redemption or refinance at that time.

In June 2016, the Center refinanced the remaining balance of the 2008 Series D ($24,230,000) and the 2011 Series A ($28,000,000) bonds payable into the Series 2016 ($42,000,000). The Series 2016 bond was issued with a 5.00% coupon rate with a 2.07% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $11,072,460. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the 10 year life of the bond. The Series 2016 bond matures on July 1, 2026.

In July 2016, the Center refinanced a portion of the remaining balance of the 2008 Series A ($68,210,000) and the 2008 Series B ($68,210,000) bonds payable into the Series 2016 B ($48,000,000). The Series 2016 B bond was issued with a 5.00% coupon rate with a 1.56% yield, and as a result, the Center received a net present value premium on this fixed rate bond in the amount of $10,752,480. This premium will be paid to bond holders by the Center as part of the semi-annual interest payments, over the 7 year life of the bond. The Series 2016 B bond matures on July 1, 2023.

(Note 7 continued on the following page)

SEGERSTROM CENTER FOR THE ARTS

Notes to Financial Statements
(Continued)
June 30, 2017 and 2016

NOTE 7 - BONDS PAYABLE (Continued)

Under the terms of an agreement with the financial institutions doing the direct purchase, the Center is required to meet minimal levels of liquidity and debt service ratios.

Amortization expense associated with the cost of issuing the above mentioned bonds totaled $157,588 and $127,006 for the years ended June 30, 2017 and 2016, respectively.

Interest expense amounted to $5,564,669 and $3,229,764 for the years ended June 30, 2017 and 2016, respectively.

The annual aggregate maturities of bonds payable are as follows:

Years ending June 30:	
2018	$ 1,410,000
2019	1,480,000
2020	1,540,000
2021	1,630,000
2022	1,710,000
Thereafter	158,960,000
Less: deferred bond issuance costs	(729,717)
	$ 166,000,283

NOTE 8 - 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 1 year and 1,000 hours of service, which is determined as of June 30 and December 31. Once eligible, the Center may make discretionary and / or match participant contributions in amounts set by the Center. The employee's vested percentage in the Plan for each year of service is as follows:

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

Costs of the retirement Plan are funded as they are incurred, and employer contributions to the Plan amounted to $155,957 and $44,458 during the years ended June 30, 2017 and 2016, respectively.

NOTE 9 - LEASES

The Center has entered into various operating lease agreements for office equipment that provide for monthly rents ranging from $189 to $1,939 and expiring through March 2021. Future minimum lease payments under noncancelable operating leases as of June 30, 2017 are as follows:

Years ending June 30:		
2018	$	40,078
2019		38,162
2020		9,139
2021		6,849
2022		1,701
	$	95,929

Rent and equipment lease expense totaled $69,132 and $59,607 for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 - LITIGATION

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

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

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