Luther Burbank Memorial Foundation dba Luther Burbank Center for the Arts

Financial Statements and Supplementary Information

For the Years Ended June 30, 2016 and 2015

PISENTI & BRINKER LLP
Certified Public Accountants and Advisors
Local Partnership. Global Solutions.

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PISENTI & BRINKER LLP
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Independent Auditor's Report

To the Board of Directors
Luther Burbank Memorial Foundation
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Luther Burbank Memorial Foundation dba Luther Burbank Center for the Arts, (the "Foundation") which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 responsibility 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 audits. We conducted our audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Luther Burbank Memorial Foundation as of June 30, 2016 and 2015, and the results of its activities and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pisenti & Brinker LLP

Petaluma, California
November 16, 2016

Statements of Financial Position

June 30,	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 42,180	$ 34,259
Accounts receivable	12,180	13,365
Pledges receivable	904,361	345,393
Prepaid expenses and other assets	539,507	420,390
Total current assets	1,498,228	813,407
Non-current assets		
Long-term pledges receivable	3,204,772	1,682,319
Investments	5,660,218	5,725,623
Property, equipment and improvements, net	9,707,232	10,083,912
Total non-current assets	18,572,222	17,491,854
Total assets	$ 20,070,450	$ 18,305,261
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	$ 513,484	$ 560,230
Deferred revenue, current portion	2,133,099	1,684,905
Rental deposits	85,246	98,119
Line of credit, current portion	897,100	-
Current maturities of note payable	27,844	-
Total current liabilities	3,656,773	2,343,254
Line of credit, noncurrent portion	-	744,485
Note payable, net of current maturities	58,009	-
Lease deposits	34,224	44,148
Deferred revenue, noncurrent portion	196,487	284,431
Total liabilities	3,945,493	3,416,318
Net assets		
Unrestricted		
Undesignated	7,600,363	8,572,254
Board designated	3,800,000	3,800,000
	11,400,363	12,372,254
Temporarily restricted	3,718,594	1,510,689
Permanently restricted	1,006,000	1,006,000
Total net assets	16,124,957	14,888,943
Total liabilities and net assets	$ 20,070,450	$ 18,305,261

See accompanying Notes to Financial Statements

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Programming	$ 4,919,939	$ -	$ -	$ 4,919,939
Contributions	1,472,222	2,490,986	-	3,963,208
Corporate sponsorship	1,046,560	-	-	1,046,560
Rental and services	822,439	-	-	822,439
Long-term leases	395,745	-	-	395,745
Investment return designated for current operations	224,034	-	-	224,034
Total revenues and gains	8,880,939	2,490,986	-	11,371,925
Net assets released from restriction	283,081	(283,081)	-	-
Total support and revenue	9,164,020	2,207,905	-	11,371,925
Expenses:				
Program services	7,636,620	-	-	7,636,620
Administration	1,605,726	-	-	1,605,726
Fundraising	809,644	-	-	809,644
Total expenses	10,051,990	-	-	10,051,990
Changes in net assets from operating activities	(887,970)	2,207,905	-	1,319,935
Other changes				
Other non-operating revenue	17,520	-	-	17,520
Investment return excluding investment return designated for current operations	(101,441)	-	-	(101,441)
Total other changes	(83,921)	-	-	(83,921)
Changes in net assets	(971,891)	2,207,905	-	1,236,014
Net assets at beginning of year	12,372,254	1,510,689	1,006,000	14,888,943
Net assets at end of year	$ 11,400,363	$ 3,718,594	$ 1,006,000	$ 16,124,957

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Programming	$ 6,112,405	$ -	$ -	$ 6,112,405
Contributions	2,661,142	1,503,189	-	4,164,331
Corporate sponsorship	853,504	-	-	853,504
Rental and services	678,120	-	-	678,120
Long-term leases	250,268	-	-	250,268
Investment return designated for current operations	217,005	-	-	217,005
Total revenues and gains	10,772,444	1,503,189	-	12,275,633
Net assets released from restriction	301,881	(301,881)	-	-
Total support and revenue	11,074,325	1,201,308	-	12,275,633
Expenses:				
Program services	8,189,409	-	-	8,189,409
Administration	1,543,662	-	-	1,543,662
Fundraising	833,165	-	-	833,165
Total expenses	10,566,236	-	-	10,566,236
Changes in net assets from operating activities	508,089	1,201,308	-	1,709,397
Other changes				
Other non-operating revenue	118,005	-	-	118,005
Investment return excluding investment return designated for current operations	(120,758)	-	-	(120,758)
Changes in net assets	505,336	1,201,308	-	1,706,644
Net assets at beginning of year	11,866,918	309,381	1,006,000	13,182,299
Net assets at end of year	$ 12,372,254	$ 1,510,689	$ 1,006,000	$14,888,943

Luther Burbank Memorial Foundation
dba Luther Burbank Center for the Arts

Statement of Functional Expenses

For the Year Ended June 30, 2016

	Program Services	General and Administration	Fund Raising	Total
Personnel				
Salaries and wages	$ 1,867,362	$ 638,372	$ 375,049	$ 2,880,783
Payroll taxes	172,256	50,036	36,085	258,377
Employee benefits	350,951	84,940	38,960	474,851
	2,390,569	773,348	450,094	3,614,011
Operating				
Advertising and promotion	612,344	4,494	67,378	684,216
Automobile	10,242	870	345	11,457
Consulting fees	166,349	108,324	39,785	314,458
Contract labor	103,321	12,589	21,660	137,570
Service charges	102,830	49,315	251	152,396
Depreciation	711,746	79,083	-	790,829
Dues and subscriptions	10,265	12,576	6,015	28,856
Equipment rental	154,774	1,136	16,900	172,810
Food and beverage	244,935	13,187	97,445	355,567
Graphic design	25,338	-	7,623	32,961
Insurance	5,982	142,355	-	148,337
Interest	-	53,449	-	53,449
Landscaping	12,189	1,354	-	13,543
Legal and accounting	-	50,822	-	50,822
Meals and entertainment	7,868	8,107	4,113	20,088
Meetings and conferences	5,857	2,126	218	8,201
Miscellaneous	48,860	66	21,353	70,279
Performers' fees	2,399,684	-	1,199	2,400,883
Postage and delivery	15,942	4,453	9,005	29,400
Printing	15,866	6,926	46,711	69,503
Property tax	-	105,553	-	105,553
Recruitment	6,375	20,733	750	27,858
Repair and maintenance	166,946	95,415	1,998	264,359
Royalties	45,065	-	-	45,065
Supplies	84,635	24,182	12,556	121,373
Taxes and licenses	6,564	606	45	7,215
Telephone	12,534	3,801	2,234	18,569
Travel	55,928	2,797	1,966	60,691
Utilities	213,612	28,059	-	241,671
	5,246,051	832,378	359,550	6,437,979
	$ 7,636,620	$ 1,605,726	$ 809,644	$ 10,051,990

Statement of Functional Expenses

For the Year Ended June 30, 2015

	Program Services	General and Administration	Fund Raising	Total
Personnel				
Salaries and wages	$ 1,792,889	$ 671,192	$ 406,232	$ 2,870,313
Payroll taxes	147,500	49,588	33,249	230,337
Employee benefits	315,787	94,255	50,018	460,060
	2,256,176	815,035	489,499	3,560,710
Operating				
Advertising and promotion	650,901	4,172	64,164	719,237
Automobile	18,391	1,229	520	20,140
Consulting fees	82,934	53,353	43,761	180,048
Contract labor	87,759	160	12,641	100,560
Service charges	131,150	46,891	1,583	179,624
Depreciation	648,171	72,019	-	720,190
Dues and subscriptions	9,799	11,181	4,882	25,862
Equipment rental	175,328	1,507	8,420	185,255
Food and beverage	282,621	11,141	105,525	399,287
Graphic design	15,331	1,200	10,101	26,632
Insurance	4,944	129,678	-	134,622
Interest	-	44,097	-	44,097
Landscaping	17,602	1,757	-	19,359
Legal and accounting	4,089	65,683	2	69,774
Loss on sale and disposal of fixed assets	8,240	-	-	8,240
Meals and entertainment	9,295	6,960	3,198	19,453
Meetings and conferences	7,389	3,531	467	11,387
Miscellaneous	25,710	10,457	10,558	46,725
Performers' fees	3,209,145	-	750	3,209,895
Postage and delivery	21,578	6,355	7,372	35,305
Printing	13,780	6,578	49,174	69,532
Property tax	-	87,264	-	87,264
Recruitment	985	6,835	206	8,026
Repair and maintenance	163,096	92,608	3,898	259,602
Royalties	45,428	-	-	45,428
Supplies	90,303	25,265	9,731	125,299
Taxes and licenses	9,742	6,561	45	16,348
Telephone	11,289	3,609	2,133	17,031
Travel	39,612	7,761	4,535	51,908
Utilities	148,621	20,775	-	169,396
	5,933,233	728,627	343,666	7,005,526
	$ 8,189,409	$ 1,543,662	$ 833,165	$ 10,566,236

Statements of Cash Flows

For the Year Ended June 30,	2016	2015
	Increase (decrease) in cash and cash equivalents	
Cash flows from operating activities		
Increase in net assets	$ 1,236,014	$ 1,706,644
Adjustments to reconcile increase in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	790,829	720,190
Loss on sale and disposal of property and equipment	925	8,240
Pledges receivable restricted for long-term purpose	(250,000)	(1,210,000)
In-kind contributions received in equipment and other assets	(140,669)	(139,198)
Net realized and unrealized losses on investments	11,874	46,503
Decrease (increase) in operating assets:		
Accounts receivable	1,185	204,675
Pledges receivable	(1,998,421)	(432,532)
Prepaid expenses and other assets	(27,869)	(40,917)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(46,746)	(201,184)
Deferred revenue	360,250	371,999
Rental deposits	(22,797)	41,916
Net cash provided by (used in) operating activities	(85,425)	1,076,336
Cash flows from investing activities		
Purchase of investments	(1,234,805)	(522,974)
Proceeds from sale of investments	1,288,336	627,669
Acquisition of property, equipment and improvements	(268,198)	(974,860)
Net cash used in investing activities	(214,667)	(870,165)
Cash flows from financing activities		
Contributions received for long-term purpose	167,000	102,000
Net proceeds from (payments on) line of credit	152,615	(505,515)
Principal payments on long-term debt	(11,602)	(11,893)
Net cash provided by (used in) financing activities	308,013	(415,408)
Net increase (decrease) in cash and cash equivalents	7,921	(209,237)
Cash and cash equivalents at beginning of year	34,259	243,496
Cash and cash equivalents at end of year	$ 42,180	$ 34,259

See accompanying Notes to Financial Statements

Statements of Cash Flows (continued)

For the Year Ended June 30,		2016		2015
Supplemental disclosures of cash flow information				
Cash paid during the year for interest	$	53,449	$	44,097
Non-cash investing and financing transactions				
Equipment acquired through gifts in-kind	$	49,421	$	13,916
Equipment acquired through financing	$	97,455	$	-

Note A. Nature of Activities and Summary of Significant Accounting Policies

Luther Burbank Memorial Foundation, (the "Foundation") was formed in 1978. The Foundation is a California not-for-profit corporation that operates its program of performance arts enrichment and 4 by developing and operating a center for performing and cultural arts in Santa Rosa, California, and Sonoma County. In addition, the Foundation leases portions of its facilities to other organizations and the general public on either a short-term or long-term basis.

In February 2006, the Foundation entered into a naming rights agreement with Wells Fargo Bank and began using Wells Fargo Center for the Arts as the name of the performance art venue. This agreement expired during 2016 and the Foundation entered into a new agreement with Lytton Rancheria and began using Luther Burbank Center for the Arts as the name of the performance art venue again.

Note B. Summary of Significant Accounting Policies

<u>Basis of presentation</u>

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - Unconditional promises to give by donors without any use or time restrictions. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds and for certain endowment funds in accordance with donor stipulations.

Temporarily restricted - Unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted - Unconditional promises to give by donors that specify that the assets donated be maintained to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the Foundation may determine the income's availability to the Foundation's operations.

<u>Cash and cash equivalents</u>

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except when a restriction is imposed which limits the investment's use to long-term. Cash is held in demand accounts at banks, and cash balances may exceed the federally insured amounts during the year.

Note B. Summary of Significant Accounting Policies (continued)

Accounts receivable

Accounts receivable consist of balances due on rental and advertising agreements, and other income. Credit is extended to customers, generally without collateral requirements. The Foundation uses the allowance method to reserve for uncollectible accounts. Management periodically evaluates the allowance. At June 30, 2016 and 2015, management determined that no material allowance was necessary.

Investments

Investments, which are comprised of mutual funds, are carried at fair value. Unrealized gains and losses are included in the statements of activities and changes in net assets. Investment earnings 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 earnings are recognized.

Fair value measurements

Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Valuation based on quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access.
Level 2: Valuations based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.
Level 3: Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

The Foundation has invested in mutual funds which are a level 1 investment with a fair value of $5,660,218 and $5,725,623 as of June 30, 2016 and 2015, respectively.

Note B. Summary of Significant Accounting Policies (continued)

Property, equipment and improvements

Property, equipment and improvements are stated at cost. Depreciation is computed principally on the straight-line method over useful lives ranging from 3 to 35 years. Donated property is recorded at the estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted. It is the Foundation's policy to capitalize property and equipment with an initial, individual cost of more than $2,000 and an estimated useful life in excess of one year.

Asset impairment

The Foundation routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment loss is recognized. No asset impairment charges were recorded during the years ended June 30, 2016 and 2015.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. The Foundation reports gifts and other assets as restricted support 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 restriction. Temporarily restricted contributions whose donor-imposed restrictions are fulfilled or expire within the same reporting period are reported as unrestricted contributions.

Verifiable pledges for contributions are recorded as pledges receivable. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected within one year and are restricted for a long-term purpose are classified as non-current assets on the statements of financial position. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Material discounts on those amounts are computed using an appropriate interest rate based on the year the pledges are made and the time period of the pledge. Amortization of the discount is included in contribution revenue. At June 30, 2016 and 2015, management determined that no material allowance was necessary.

Note B. Summary of Significant Accounting Policies (continued)

Contributions (continued)

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation at programming events and fundraising activities; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Contributed wine is recorded at fair value at the date of donation. The Foundation received in-kind donations of wine in the amount of $307,964 and $314,188 for the years ended June 30, 2016 and 2015, respectively.

Endowment funds

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The board of directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment, and (c) additions to the permanent endowment in accordance with donor directions. The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy – In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Foundation and the endowment funds
3) General economic conditions
4) The possible effects of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Foundation
7) The investment policies of the Foundation

Note B. Summary of Significant Accounting Policies (continued)

Endowment funds (continued)

Spending policy (continued) – The board of directors designates a portion of the Foundation's cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations.

Under the Foundation's spending policy, no more than 4% of a trailing 3 year rolling average of the fair value of the endowment assets can be used to support current operations. The policy is evaluated during the budget process each year.

Investment policy – The endowment funds are invested according to the Foundation's investment policy, which is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets.

Revenue recognition and deferred revenue

Sales of programming and rental events are recorded as revenue in the period in which the event or rental occurs. Deferred revenue represents amounts received for future scheduled events. If a show cancels, the Foundation either refunds the money or gives the ticket holder credit for a future event. Deferred revenue also includes long term corporate sponsorships and naming rights, where revenue is recorded over the term of the applicable contract.

Advertising and promotion costs

General advertising and promotion costs are expensed when incurred. The costs of direct-response advertising associated with specific shows are capitalized when initially incurred, and expensed when the related revenues are recognized. Advertising and promotion expenses amounted to $684,216 and $719,237 for the years ended June 30, 2016 and 2015, respectively.

Functional expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Expenses, such as depreciation, have been allocated among the program, supporting services and fundraising based on usage and management estimates.

Note B. Summary of Significant Accounting Policies (continued)

Income taxes

The Foundation is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, the Foundation 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, commonly referred to as unrelated business income. No income tax provision has been recorded for the years ended June 30, 2016 and 2015, since management determined that the Foundation had no unrelated business income.

The Foundation determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2016, the Foundation has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Foundation's open tax years subject to review are 2012-2015 for state and 2013-2015 for federal. The Foundation is not a private foundation.

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 based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relate to the collectibility of pledges receivable, accounts receivable, and depreciable lives of property, equipment and improvements. Actual results could differ from those estimates.

Collections

The Foundation has capitalized its collections of art since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date (the date on which the item is accepted by the Foundation). Gains or losses on the deaccessions of collection items are classified on the statement of activities and changes in net assets as unrestricted or temporarily restricted support depending on donor restriction, if any, placed on the item at the time of accession.

Note C. Investments

Investments stated at fair value as of June 30 are as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 5,240,171	$ 5,660,218	$ 4,724,063	$ 5,725,623

The following schedule summarizes the investment return and its classification in the statements of activities and changes in net assets for the years ended June 30:

	2016	2015
Dividends and interest	$ 134,467	$ 142,750
Net realized gains	183,699	245,469
Net unrealized losses	(195,573)	(291,972)
Total investment return	122,593	96,247
Investment return designated for current operations	(224,034)	(217,005)
Investment return excluding amounts designated for current operations	$ (101,441)	$ (120,758)

The Foundation has a line of credit agreement (Note F) with a commercial bank. The line is collateralized by investments held in an account with the same commercial bank.

Note D. Pledges Receivable

Pledges receivable consist of the following as of June 30:

	2016	2015
Unrestricted	$ 1,096,147	$ 757,712
Temporarily restricted	3,012,986	1,270,000
Total pledges receivable	$ 4,109,133	$ 2,027,712

Note D. Pledges Receivable (continued)

Pledges receivable at June 30 are expected to be collected as follows:

	2016	2015
Less than one year	$ 904,361	$ 345,393
Less than one year – restricted for long-term purpose	1,459,000	1,256,000
One to ten years, net of present value discount of $176,614 and $0 in 2016 and 2015, respectively	1,745,772	426,319
	$ 4,109,133	$ 2,027,712

Note E. Property, Equipment and Improvements

Property, equipment and improvements consist of the following as of June 30:

	2016	2015
Land	$ 1,779,368	$ 1,779,368
Building and improvements	16,248,617	15,826,679
Equipment, furniture and fixtures	2,741,138	2,527,499
Construction in progress	264,656	522,252
	20,652,374	20,655,798
Accumulated depreciation	(11,326,547)	(10,571,886)
	$ 9,707,232	$ 10,083,912

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to $790,829 and $720,190, respectively.

Note F. Line of Credit Agreement

The Foundation has a line of credit with a commercial bank allowing for borrowings up to $3,250,000. The outstanding borrowings bear an interest rate equal to the bank's prime rate (3.50% as of June 30, 2016), but no less than 3.25%. The line is collateralized by investments held in an account with the same commercial bank (Note C). The line expires in January 2017.

Note G. Community Endowment

Two permanent endowment funds benefiting the Foundation were established at the Community Foundation Sonoma County. The endowment funds are under the administration of the Community Foundation Sonoma County, which maintains variance power over those funds and therefore are not recorded by the Foundation. The funds were established to help carry out the mission and activities of the Foundation. The Foundation will receive disbursements from these funds based on their earnings, as determined by the Community Foundation Sonoma County. The funds were established with donations totaling $228,892. A total of $7,023 and $9,300 were distributed from the endowment funds during the years ended June 30, 2016 and 2015, respectively which is recorded in contributions. The fund balance was $224,235 and $235,904 as of June 30, 2016 and 2015, respectively.

Note H. Unrestricted and Restricted Net Assets

Unrestricted net assets

All general operating revenues and expenses related to the program activities of the Foundation are included in the change in unrestricted net assets. From time to time unrestricted donations received are designated by the Foundation's board of directors as board designated funds. The board designated funds consist of funds with no donor or legal restrictions, but through board resolutions have been set aside for specific purposes. As of June 30, 2016 and 2015, $3,800,000 was designated by the board as operating reserves.

Temporarily restricted net assets

Temporarily restricted net assets are summarized by the following restriction categories as of June 30:

	2016	2015
Capital improvements	$ 1,830,720	$ 1,093,274
Time restrictions	1,664,986	234,375
Arts and education programs	141,000	66,500
Family and cultural shows	81,888	116,540
	$ 3,718,594	$ 1,510,689

Permanently restricted net assets

Permanently restricted net assets consist of direct donations to the Foundation's endowment fund. Permanently restricted net assets held by the Foundation amounted to $1,006,000 as of June 30, 2016 and 2015.

Note I. Endowment Fund

The endowment fund held by the Foundation consists of $1,006,000 of permanently restricted funds as of June 30, 2016 and 2015. Donors' stipulations require that the restricted endowment fund be invested in perpetuity. The net appreciation of the donor-restricted endowment fund is unrestricted.

Note J. Related Party Transactions

The Foundation purchased goods and services from related companies during the years ended June 30, 2016 and 2015. These companies employ or are owned by board members. Purchases amounted to $21,057 and $22,934 for the years ended June 30, 2016 and 2015, respectively. Services and products purchased include office supplies, carpeting, broadcast advertising, legal services, and telephone services.

Note K. Concentration of Credit Risk

At various times during the year ended June 30, 2016, the Foundation had deposit amounts with financial institutions in excess of the $250,000 FDIC insurance limit and the $250,000 SIPC insurance limit for deposit amounts held with an investment broker. At June 30, 2016, the Foundation had no deposits in excess of FDIC or SIPC insured amounts.

Note L. Board Member Contributions

The Foundation receives contributions from board members and companies that employ or are owned by board members. The amount of pledges and cash contributions received during the fiscal years ended June 30 are as follows:

	2016	2015
Pledges receivable from board members at the beginning of the year	$ 201,550	$ 200,625
Current year pledges made	297,600	109,040
Pledges fulfilled during current year	(84,850)	(108,115)
Pledges receivable from board members at the end of the year	$ 414,300	$ 201,550

Note M. Retirement Plan

The Foundation sponsors a retirement plan covering substantially all nonunion employees meeting certain age and service requirements. Eligible employees may contribute specified amounts to the plan, but not in excess of amounts allowed by the Internal Revenue Code. The plan follows a calendar year end. The Foundation's plan calls for matching contributions up to 3% of a participant’s compensation. The Foundation matched contributions in the amount of $43,108 and $44,719 for the years ended June 30, 2016 and 2015, respectively.

Note N. Multiemployer Pension Plan

The Foundation contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement that covers certain union-represented employees. The risks of participating in multiemployer pension plans are different from single employer pension plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Foundation stops participating in its multiemployer pension plan, the Foundation may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Foundation participates in a plan (“the Plan”) with the International Alliance of Theatrical Stage Employees Local 16 Pension Plan, Employer Identification Number 94-6296420, Plan Number 001. The collective bargaining agreement expires June 30, 2018. The Plan’s year end is December 31, 2014, which is the most recent information available. The Plan is currently in a critical pension protection act zone status “red”, which means the Plan is less than 65% funded. The trustees of the Plan have implemented a funding improvement plan and a surcharge. Union employees received contributions to the pension trust fund in the amount of nine and one-half percent (9.5%) of the gross wages of each employee working under the agreement for each of the years ended June 30, 2016 and 2015. The Foundation's contributions to the Plan were $32,448 and $24,250 for the years ended June 30, 2016 and 2015, respectively. The Foundation’s contributions to the Plan are less than 5% of the total plan contributions as of the Plan’s year end.

Note O. Subsequent Events

The Foundation evaluated subsequent events from July 1, 2016 through November 16, 2016, the date which the financial statements were available to be issued.