Theater and Arts Foundation of San Diego County dba La Jolla Playhouse

Financial Statements

Years Ended March 31, 2016 and 2015

Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

Mayer Hoffman McCann P.C.
An Independent CPA Firm

10616 Scripps Summit Court
San Diego, California 92131
858-795-2000 ph
858-795-2001 fx
www.mhm-pc.com

Independent Auditors' Report

To the Board of Trustees
Theater and Arts Foundation of San Diego County
dba La Jolla Playhouse
La Jolla, California

We have audited the accompanying financial statements of the **Theater and Arts Foundation of San Diego County dba La Jolla Playhouse** (the "Foundation"), a nonprofit corporation, which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities 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 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Theater and Arts Foundation of San Diego County dba La Jolla Playhouse** as of March 31, 2016 and 2015, and the 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.

Mayer Hoffman McCann P.C.

San Diego, California
September 20, 2016

Theater and Arts Foundation of San Diego County dba La Jolla Playhouse

Statements of Financial Position

March 31,		**2016**		2015
Assets				
Cash and cash equivalents	**$**	**2,126,629**	$	3,043,803
Certificate of deposit		**79,752**		79,721
Receivables				
Pledges		**1,859,973**		1,571,781
Accounts		**219,575**		458,794
Split-interest agreements (Temporarily Restricted)		**122,912**		134,339
Split-interest agreements (Permanently Restricted)		**3,569,033**		3,809,465
Total receivables		**5,771,493**		5,974,379
Prepaid expenses and other assets		**444,684**		330,488
Fixed assets, net		**15,078,708**		16,221,043
Endowment assets				
Beneficial interest in perpetual trust		**1,725,972**		1,850,725
Investments		**2,450,986**		2,645,663
Beneficial interest in assets held by others		**3,671,320**		2,791,647
Total endowment assets		**7,848,278**		7,288,035
Total assets	**$**	**31,349,544**	$	32,937,469
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**1,185,016**	$	848,916
Notes payable		**5,043,226**		5,987,063
Deferred revenue		**2,364,948**		2,718,109
Total liabilities		**8,593,190**		9,554,088
Net Assets				
Unrestricted		**12,608,490**		13,938,016
Temporarily restricted		**1,100,930**		1,007,919
Permanently restricted		**9,046,934**		8,437,446
Total net assets		**22,756,354**		23,383,381
Total liabilities and net assets	**$**	**31,349,544**	$	32,937,469

The accompanying notes are an integral part of these financial statements.

Year Ended March 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Box office receipts	$ 4,897,683	$ -	$ -	**$ 4,897,683**
Royalties	488,333	-	-	**488,333**
Enhancements	2,642,898	-	-	**2,642,898**
Co-production	100,000	-	-	**100,000**
Miscellaneous	569,381	-	-	**569,381**
Educational programs	207,041	-	-	**207,041**
Concessions and gift shop sales	12,215	-	-	**12,215**
Interest and dividends	53,012	-	-	**53,012**
Spending distributions from permanent funds	179,415	-	-	**179,415**
Investment loss	(154,866)	-	-	**(154,866)**
Total revenues	8,995,112	-	-	**8,995,112**
Expenses				
Production	7,715,492	-	-	**7,715,492**
Salaries, taxes and benefits-nonproduction	5,018,850	-	-	**5,018,850**
Marketing	1,284,932	-	-	**1,284,932**
Administration	928,404	-	-	**928,404**
Development	798,066	-	-	**798,066**
Artistic	445,694	-	-	**445,694**
Educational programs	113,771	-	-	**113,771**
Write-off of uncollectible pledges and accounts receivable	69,803	-	-	**69,803**
Costs of direct benefits to donors	66,765	-	-	**66,765**
Concessions and gift shop	20,579	-	-	**20,579**
Total expenses	16,462,356	-	-	**16,462,356**
Change in net assets before support and other revenues and expenses	(7,467,244)	-	-	**(7,467,244)**
Support				
Individuals	2,093,629	1,400,708	1,204,801	**4,699,138**
Special events	1,515,713	72,675	-	**1,588,388**
Government	497,512	60,400	-	**557,912**
Corporations	189,845	212,500	-	**402,345**
Foundations	1,057,131	160,000	-	**1,217,131**
In-kind	446,932	-	-	**446,932**
Change in value of split-interest agreements	-	(11,427)	(240,432)	**(251,859)**
Change in value of beneficial interest in perpetual trust, net of spending distribution	-	-	(124,753)	**(124,753)**
Change in value of beneficial interest in assets held by others, net of spending distribution	-	-	(230,128)	**(230,128)**
Net assets released from restrictions	1,801,845	(1,801,845)	-	-
Total support	7,602,607	93,011	609,488	**8,305,106**
Change in net assets from operations	135,363	93,011	609,488	**837,862**
Other revenues and expenses				
Depreciation and amortization	(1,210,989)	-	-	**(1,210,989)**
Interest expense	(169,887)	-	-	**(169,887)**
Loss on disposition of fixed assets	(84,013)	-	-	**(84,013)**
Net other revenues and expenses	(1,464,889)	-	-	**(1,464,889)**
Change in Net Assets	(1,329,526)	93,011	609,488	**(627,027)**
Net Assets at Beginning of Period	13,938,016	1,007,919	8,437,446	**23,383,381**
Net Assets at End of Period	$ 12,608,490	$ 1,100,930	$ 9,046,934	**$ 22,756,354**

The accompanying notes are an integral part of this financial statement.

Statement of Activities

Year Ended March 31, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Box office receipts	$ 4,738,888	$ -	$ -	**$ 4,738,888**
Royalties	970,471	-	-	**970,471**
Enhancements	2,219,167	-	-	**2,219,167**
Co-production	579,716	-	-	**579,716**
Miscellaneous	481,346	-	-	**481,346**
Educational programs	250,501	-	-	**250,501**
Concessions and gift shop sales	31,805	-	-	**31,805**
Interest and dividends	55,934	-	-	**55,934**
Spending distributions from permanent funds	173,694	-	-	**173,694**
Investment return	36,741	-	-	**36,741**
Total revenues	9,538,263	-	-	**9,538,263**
Expenses				
Production	7,428,088	-	-	**7,428,088**
Salaries, taxes and benefits-nonproduction	4,640,146	-	-	**4,640,146**
Marketing	1,015,940	-	-	**1,015,940**
Administration	753,216	-	-	**753,216**
Development	539,655	-	-	**539,655**
Artistic	316,656	-	-	**316,656**
Write-off of uncollectible pledges and accounts receivable	242,875	-	-	**242,875**
Educational programs	127,980	-	-	**127,980**
Costs of direct benefits to donors	60,400	-	-	**60,400**
Concessions and gift shop	26,715	-	-	**26,715**
Total expenses	15,151,671	-	-	**15,151,671**
Change in net assets before support and other revenues and expenses	(5,613,408)	-	-	**(5,613,408)**
Support				
Individuals	2,068,836	705,920	950,000	**3,724,756**
Special events	1,726,820	14,500	-	**1,741,320**
Government	508,717	4,500	-	**513,217**
Corporations	328,498	150,000	-	**478,498**
Foundations	306,641	428,059	-	**734,700**
In-kind	185,035	-	-	**185,035**
Change in value of split-interest agreements	69,964	9,998	(10,373)	**69,589**
Change in value of beneficial interest in perpetual trust, net of spending distribution	-	-	74,923	**74,923**
Change in value of beneficial interest in assets held by others, net of spending distribution	-	-	(237,799)	**(237,799)**
Net assets released from restrictions	1,350,156	(1,350,156)	-	**-**
Total support	6,544,667	(37,179)	776,751	**7,284,239**
Change in net assets from operations	931,259	(37,179)	776,751	**1,670,831**
Other revenues and expenses				
Depreciation and amortization	(1,191,862)	-	-	**(1,191,862)**
Interest expense	(186,485)	-	-	**(186,485)**
Net other revenues and expenses	(1,378,347)	-	-	**(1,378,347)**
Change in Net Assets	(447,088)	(37,179)	776,751	**292,484**
Net Assets at Beginning of Period	14,385,104	1,045,098	7,660,695	**23,090,897**
Net Assets at End of Period	$ 13,938,016	$ 1,007,919	$ 8,437,446	**$ 23,383,381**

The accompanying notes are an integral part of this financial statement.

Theater and Arts Foundation of San Diego County dba La Jolla Playhouse

Statements of Cash Flows

Years Ended March 31,		**2016**		2015
Cash Flows From Operating Activities				
Change in net assets	**$**	**(627,027)**	$	292,484
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization		**1,210,989**		1,191,862
Loss on disposition of fixed assets		**84,013**		-
Change in value of split-interest agreements		**251,859**		(69,589)
Change in value of beneficial interest in perpetual trust, net of spending distribution		**124,753**		(74,923)
Net unrealized and realized (gain) loss on investments		**101,854**		(92,675)
Change in value of beneficial interest in assets held by others, net of spending distribution		**230,128**		237,799
Write-off of uncollectible pledges and accounts receivable		**69,744**		242,875
Present value adjustment on pledges receivable		**3,526**		-
(Increase) decrease in operating assets				
Pledges receivable		**(311,521)**		1,035,604
Accounts receivable		**189,219**		(4,637)
Prepaid expenses and other current assets		**(114,196)**		18,170
Beneficial interest in assets held by others		**(1,109,801)**		(961,050)
Increase (decrease) in operating liabilities				
Accounts payable and accrued expenses		**336,100**		(50,991)
Deferred revenue		**(353,161)**		301,159
Net cash provided by operating activities		**86,479**		2,066,088
Cash Flows From Investing Activities				
Purchases of investments		**(1,027,929)**		(2,938,676)
Proceeds from sales of investments		**1,120,780**		2,996,913
Acquisition of property and equipment		**(152,667)**		(375,643)
Purchase of certificate of deposit		-		(17,017)
Net cash used in investing activities		**(59,816)**		(334,423)
Cash Flows From Financing Activities				
Payments on notes payable		**(943,837)**		(802,770)
Distribution of split-interest agreement		-		443,729
Net cash used in financing activities		**(943,837)**		(359,041)
Net Increase (Decrease) in Cash and Cash Equivalents		**(917,174)**		1,372,624
Cash and Cash Equivalents at Beginning of Year		**3,043,803**		1,671,179
Cash and Cash Equivalents at End of Year	**$**	**2,126,629**	$	3,043,803
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest	**$**	**169,887**	$	186,485

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

A summary of the significant accounting principles for the **Theater and Arts Foundation of San Diego County dba La Jolla Playhouse** (the "Foundation"), which were consistently applied in the preparation of the accompanying financial statements follows.

Nature of organization

The **Theater and Arts Foundation of San Diego County dba La Jolla Playhouse** is a California not-for-profit corporation formed for the primary purposes of presenting theatrical arts to the public for specified ticket admission prices, providing an extensive range of educational and outreach services and programs to its community, and providing internship programs in the artistic, management, and technical aspects of professional theater.

Method of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial statement presentation

The financial statements of the Foundation have been presented in accordance with authoritative guidance for not-for-profit organizations. The Foundation reports its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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 specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation can spend the funds.

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

Cash and cash equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Certificate of deposit

At March 31, 2016 and 2015, the Foundation had a restricted certificate of deposit of approximately $80,000 in accordance with its agreement with the Actors' Equity Association.

Revenue recognition

Box Office Receipts - Box office receipts are recorded as revenue on a specific performance basis. Ticket sales for future performances are initially deferred and subsequently recognized as revenue when the performance takes place.

Co-production/Enhancements - Co-production and enhancement revenue represents funds received from others to expand budgets for specific Foundation productions. Revenue is recognized when the related production is performed.

Educational Programs - Educational program revenue is recognized at the time the programs are completed. Any amounts received in advance are deferred until the programs take place.

Concessions and Gift Shop Sales - Concessions and gift shop sales revenue is recognized at the time of sale.

Royalties - Royalties represent revenue earned under agreements with other performing arts related entities for the use of specific productions created by the Foundation. Revenue is recognized as the productions are performed.

Support

Contributions - Contributions are recognized as revenue when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the restrictions. When a donor restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Government Grants - Revenue from grants is recognized to the extent of eligible costs incurred, up to the maximum grant amount. Any amounts received in advance are deferred until the funds are spent.

In-Kind Donations - The value of services and facilities donated are recorded as unrestricted contributions and expensed in the year donated. These contributions are valued at the estimated fair value of similar services and materials. Donated fixed assets are capitalized at fair value on the date of donation and are recorded as unrestricted, temporarily restricted, or permanently restricted in-kind contribution support, depending on the wishes of the donor.

Receivables

Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts to present value are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in support on the statements of activities. Conditional promises to give are not recorded as revenue until the conditions are substantially met. An allowance for estimated uncollectible pledges is based on past experience and on an analysis of current amounts. Pledges deemed uncollectible are written-off in the year in which they are deemed uncollectible. Management has determined that an allowance for doubtful accounts of $100,000 was necessary at March 31, 2016 and 2015.

Accounts receivable are recorded when services are provided and are presented net of any allowance for doubtful accounts. Accounts receivable consist primarily of amounts accrued for earnings on royalty revenue generated during the period and amounts earned during the period for co-production services provided to other theaters. No collateral is obtained. Management has determined that an allowance for doubtful accounts was not necessary at March 31, 2016 and 2015.

Purchased land, property and equipment

Land, property, and equipment are recorded at cost if purchased. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the assets, which is generally five years for furniture, equipment, and production equipment, thirty years for real property, and in the case of leasehold improvements, over the lesser of the useful lives of the related assets or the lease term. It is the Foundation's policy to capitalize fixed assets costing in excess of $2,000 and a useful life of greater than three years.

Donated property and equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in temporarily restricted net assets.

Impairment of long-lived assets

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Investments

Investments are accounted for in accordance with authoritative guidance, which states that investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair value with gains and losses included in the statements of activities.

Investments consist of marketable securities and are accounted for as follows:

Marketable securities consist of mutual funds, equity, and fixed income securities and are recorded at fair market value. The fair value of investments in securities is based on quoted market prices and is valued at the closing price on the last business day of the year.

Realized gains and losses on the sale of investments are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the period or since the acquisition date, if acquired during the period, and are recorded as a component of unrestricted net assets, unless restricted by the donor. Donated investments are initially recorded at fair value at the date of the gift. It is the Foundation's policy to sell donated investments upon receipt.

Production costs

Costs of scenery, costumes, and stage properties are recorded as expenses in the period in which the related production is first performed. Production costs relating to future performances are deferred until the production is presented. Production expenses include all direct costs of the performances. Direct costs include payroll, artist fees, scenery, costumes, and other costs.

Advertising

The Foundation expenses advertising as incurred. Advertising expense was approximately $689,000 and $627,000 for the years ended March 31, 2016 and 2015, respectively. The expense is included in marketing expenses.

Functional allocation of expenses

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

Functional allocation of expenses, cont'd

The information below presents all expenses functionally and reflects the allocation of depreciation and interest expense generally on the basis of the department for which the assets were purchased or constructed.

Years Ended March 31,	**2016**	2015
Programs	**$ 13,149,713**	$ 12,296,448
Management and general	**3,033,242**	2,892,152
Fundraising	**1,660,277**	1,341,419
	$ 17,843,232	$ 16,530,019

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 and disclosure of contingent 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. Significant estimates used in preparation of these financial statements include the valuation of useful lives of assets, allowance on pledges receivable, split-interest agreements, beneficial interests, and the functional allocation of expenses.

Transactions with UCSD

The Foundation conducts a significant amount of transactions with the University of California, San Diego (the "University"). The Foundation has entered into the following transactions with the University:

- A construction and operation agreement (Note 5);
- An endowment fund (Note 6);
- An unsecured note payable to the University (Note 8); and
- A lease agreement with the University for rental space to construct and operate a restaurant (Note 9).

Additionally, for the years ended March 31, 2016 and 2015, the Foundation paid the University approximately $1,259,000 and $1,351,000, respectively, for joint staff, parking permits, rent, and general operations. At March 31, 2016 and 2015, the Foundation had payables of approximately $208,000 and $43,000, respectively, due to the University. The Foundation also provides services for the University during productions performed by the University, primarily consisting of staffing and janitorial services. The Foundation received approximately $438,000 and $502,000 for the years ended March 31, 2016 and 2015, respectively, from the University related to these

Transactions with UCSD, cont'd

services, which is recorded in Miscellaneous revenue on the Statement of Activities and as a spending distribution from the endowment fund, which is recorded in Spending distributions from permanent funds on the Statement of Activities. At March 31, 2016 and 2015, the Foundation had receivables of approximately $117,000 and $187,000, respectively, due from the University.

Fair value measurements

The Foundation measures fair value at the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2: Unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

Fair value measurements, cont'd

The following tables summarize the valuation of the Foundation's fair value measurements in accordance with authoritative guidance at March 31, 2016:

	Level 1	Level 2	Level 3	Total
Equity mutual funds				
Large Growth	$ 246,292	$ -	$ -	$ 246,292
Large Blend	332,774	-	-	332,774
Large Value	703,467	-	-	703,467
Mid Growth	188,710	-	-	188,710
Commodities	47,038	-	-	47,038
Small Blend	146,773	-	-	146,773
Mid Value	49,854	-	-	49,854
Mid Cap Blend	788	-	-	788
Bond mutual funds		-	-	
Intermediate Term	160,685	-	-	160,685
Corporate Bond	49,794	-	-	49,794
High Yield	290,691	-	-	290,691
Hedged Fixed	76,095	-	-	76,095
Emerging Foreign	81,326	-	-	81,326
Inflation Protected	63,553	-	-	63,553
Money Market	13,146	-	-	13,146
Beneficial interest in assets held by others	-	-	3,671,320	3,671,320
Beneficial interest in perpetual trust	-	-	1,725,972	1,725,972
Split-interest agreements (Temporarily restricted)	-	-	122,912	122,912
Split-interest agreements (Permanently restricted)	-	-	3,569,033	3,569,033
Total	$ 2,450,986	$ -	$ 9,089,237	$11,540,223

Fair value measurements, cont'd

Changes in Level 3 fair value measurements during the year ending March 31, 2016 were as follows:

	Beneficial interest in assets held by others	Beneficial interest in perpetual trust	Split-interest trust assets	Total
April 1, 2015	$ 2,791,647	$ 1,850,725	$ 3,943,804	$ 8,586,176
Contribution	1,109,801	-	-	1,109,801
Change in value of beneficial interest in assets held by others	(230,128)	-	-	(230,128)
Change in value of beneficial interest in perpetual trust	-	(124,753)	-	(124,753)
Change in value of split interest agreements	-	-	(251,859)	(251,859)
March 31, 2016	$ 3,671,320	$ 1,725,972	$ 3,691,945	$ 9,089,237

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Split-interest trust assets	$3,691,945	Present value of expected future cash flows	Discount Rate Growth Rate Payout Rate Years remaining	1.8 – 2.0% 2.0% 5.9% 8.1 – 13.2

Fair value measurements, cont'd

The following tables summarize the valuation of the Foundation's fair value measurements in accordance with authoritative guidance at March 31, 2015:

	Level 1	Level 2	Level 3	Total
Equity mutual funds				
Large Value	$ 596,615	$ -	$ -	$ 596,615
Large Growth	372,536	-	-	372,536
Large Blend	321,205	-	-	321,205
Mid Growth	300,108	-	-	300,108
Small Blend	83,095	-	-	83,095
Mid Value	72,485	-	-	72,485
Commodities	36,787	-	-	36,787
Mid-Cap Blend	27,724	-	-	27,724
Bond mutual funds				
High yield	247,991	-	-	247,991
Emerging foreign	197,690	-	-	197,690
Intermediate term	140,129	-	-	140,129
Hedged fixed	98,687	-	-	98,687
Inflation protected	82,635	-	-	82,635
Corporate Bond	56,770	-	-	56,770
Money Market	11,206	-	-	11,206
Beneficial interest in assets held by others	-	-	2,791,647	2,791,647
Beneficial interest in perpetual trust	-	-	1,850,725	1,850,725
Split-interest agreements (Temporarily restricted)	-	-	134,339	134,339
Split-interest agreements (Permanently restricted)	-	-	3,809,465	3,809,465
Total	$ 2,645,663	$ -	$ 8,586,176	$11,231,839

Fair value measurements, cont'd

Changes in Level 3 fair value measurements during the year ending March 31, 2015 were as follows:

	Beneficial interest in assets held by others	Beneficial interest in perpetual trust	Split-interest trust assets	Total
April 1, 2014	$ 2,068,396	$ 1,775,802	$ 4,317,944	$ 8,162,142
Distribution	-	-	(443,729)	(443,729)
Contribution	950,000			950,00
Transfer	11,050	-	-	11,050
Change in value of beneficial interest in assets held by others	(237,799)	-	-	(237,799)
Change in value of beneficial interest in perpetual trust	-	74,923	-	74,923
Change in value of split interest agreements	-	-	69,589	69,589
March 31, 2015	$ 2,791,647	$ 1,850,725	$ 3,943,804	$ 8,586,176

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Split-interest trust assets	$3,943,804	Present value of expected future cash flows	Discount Rate	2.0 – 2.2%
			Growth Rate	2.0%
			Payout Rate	5.9%
			Years remaining	8.6 – 12.4

Income tax status

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, however, may be subject to tax on income which is not related to its exempt purpose. The Foundation had no unrelated business income tax for the years ended March 31, 2016 and 2015.

As of April 1, 2009, the Foundation adopted the guidance related to uncertain tax positions and it did not result in an adjustment to the financial statements.

Income tax status, cont'd

At March 31, 2016, the federal statute of limitation remained open for the 2012 through 2015 tax years. The statute of limitations for the state income tax returns remained open for the 2011 through 2015 tax years.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 classifications. These reclassifications have no material effect on total net assets.

2. Concentration of Credit Risk

The Foundation maintains its cash and cash equivalents in bank deposit accounts, which at times exceed federally insured deposit limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Investments are exposed to various risks, such as interest rates, credit, and overall market volatility. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the financial statements.

3. Pledges Receivables

As of March 31, pledges receivable were:

	2016	2015
Receivables due in less than one year	**$ 1,922,509**	$ 1,457,846
Receivables due in one to five years	**41,042**	221,039
Total unconditional promises to give	**1,963,551**	1,678,885
Less allowance for doubtful receivables	**(100,000)**	(100,000)
Less discount to net present value	**(3,578)**	(7,104)
Net unconditional promises to give	**$ 1,859,973**	$ 1,571,781

Long-term pledges receivables are discounted using a risk-adjusted rate of return of 2.50% per annum.

4. Split-Interest Agreements

In 1996, the Foundation received a contribution of an interest in an irrevocable remainder trust. The terms of the trust granted the Foundation a minimum of 25% of the trust upon the death of the beneficiary. During the year ended March 31, 2015, the final distribution from the trust was received and thus no underlying assets were remaining at March 31, 2016 or March 31, 2015.

In 2002, the Foundation received a contribution of an interest in an irrevocable remainder trust. The trust had a fair value of approximately $967,000 and $1,082,000 at March 31, 2016 and 2015, respectively. The terms of the trust grants the Foundation 15% of the trust, approximately

4. Split-Interest Agreements, Cont'd

$145,000 upon the death of the beneficiary. The current value of the gift is approximately $123,000. The current value of the gift has been discounted to its present value using a risk adjusted of return of approximately 2.04% over the anticipated life expectancy of the beneficiary at March 31, 2016.

In 2003, the Foundation received an endowment contribution of a 100% interest in an irrevocable remainder trust. The trust had a current value of approximately $3,600,000 and $3,800,000 at March 31, 2016 and 2015, respectively. The current value of the gift has been discounted to its present value using a risk adjusted rate of return of approximately 1.8% and 2.0% per annum over the anticipated life of the beneficiary as of March 31, 2016 and 2015, respectively.

5. Fixed Assets

Fixed assets at March 31, are comprised of:

	2016	2015
Condominiums		
Land	**$ 3,564,735**	$ 3,564,735
Improvements	**1,478,125**	1,478,125
Leasehold improvements	**20,578,385**	20,659,250
Furniture and equipment	**1,819,019**	1,716,416
Production equipment	**641,497**	641,497
	28,081,761	28,060,023
Less accumulated depreciation	**(13,003,053)**	(11,838,980)
	$ 15,078,708	$16,221,043

The Foundation performs in three theatres: the Mandell Weiss Theatre, the Mandell Weiss Forum Theatre, and the Sheila and Hughes Potiker Theatre located in the Joan and Irwin Jacobs Center. The theaters are located on the campus of the University and are owned by the University. The Foundation has a contractual arrangement, which expires in December 2050, with the University whereby the use of the theatres is shared by the Foundation and the University's Department of Theatre and Dance.

In 2000, the Foundation entered into an agreement with the University for the construction and operation of the Joan and Irwin Jacobs Center which houses the Sheila and Hughes Potiker Theatre, the Charmaine and Maury Kaplan administrative offices, an educational center, the Rao and Padma Makineni Play Development Center, the Seuss rehearsal rooms, and related facilities (reflected as leasehold improvements) on the University campus adjacent to the Mandell Weiss Theatre. The Foundation raised

5. Fixed Assets, Cont'd

approximately $14,800,000 to fund the cost of these facilities and agreed to transfer those funds to the University (Note 8). Additionally, the Foundation raised approximately $1,200,000 to fund capital additions to the facilities, including the completion of a restaurant shell that is reflected as leasehold improvements. The Foundation also secured financing in 2008 to complete leasehold improvements on the restaurant (Notes 8 and 9), which was completed in June 2008. The amounts paid for construction of leasehold improvements have been capitalized and are being depreciated over the useful life of the leasehold improvements.

Since the Foundation provided funding to help build the theaters, the University allows the Foundation to use the theaters at no cost.

The Foundation acquired 24 condominium units for use by visiting artists costing approximately $5,000,000. As discussed in Note 8, the Foundation secured financing to assist with the purchase of the units. The units have been capitalized and are being depreciated over 30 years.

6. Endowment Assets

Beneficial Interest in Perpetual Trust - In 2000, an endowment fund was established at University of California San Diego Foundation (Trustee) with the Foundation named as the irrevocable beneficiary. The Foundation does not have access to the fund principal. The Foundation receives distributions from the endowment in accordance with the Trustee's standard endowment spending policy with any excess amounts remaining in the endowment fund in perpetuity. Distributions from the endowment fund of 4.35% annually are recorded as unrestricted income when they become distributable. The assets in the trust consist of stocks, fixed income securities, and alternative investments and are recorded at fair value. The fair value of alternative investments, for which quoted market prices are not available, are determined by investment managers in good faith using methods considered appropriate, and is subject to oversight and review by management. The beneficial interest in the perpetual trust is recorded at the fair value, which approximates expected future cash flows from the trust.

Beneficial Interest in Assets Held by Others - In 2006, the Foundation received a $1,000,000 gift that is held in a custodial account at the San Diego Jewish Community Foundation. An annual distribution of 5% of the market value of the endowment is distributed to the Foundation for new play development. The custodial account had a market value of approximately $810,000 and $880,000 at March 31, 2016 and 2015, respectively.

6. Endowment Assets, Cont'd

In 2013, the Foundation received a gift of approximately $1,200,000 that was held in a custodial account at Charles Schwab. An annual distribution of 5% of the market value of the endowment is distributed to the Foundation.

In 2015, the gift was transferred from Charles Schwab to a custodial account at the San Diego Foundation. An annual distribution of 5% of the preceding 36 month average fair market value of the endowment is distributed to the Foundation. The custodial account had a market value of approximately $2,861,000 and $1,911,000 at March 31, 2016 and 2015, respectively.

In August 2016, the custodial account was transferred from the San Diego Foundation to a custodial account at U.S. Trust. The market value of the endowment transferred to U.S. Trust was approximately $3,009,000.

In September 2016, an estate gift of $1,000,000 was presented to the Playhouse to be added to the Permanent Endowment.

These beneficial interests in assets held by others are recorded at fair value, which approximates expected future cash flows from the beneficial interest.

Investments – The Board-designated endowments fund consists of the following at March 31:

	2016	2015
Equity mutual funds	**$ 1,715,696**	$ 1,810,555
Bond mutual funds	**722,144**	823,902
Money market funds	**13,146**	11,206
	$ 2,450,986	$ 2,645,663

The Foundation's Board of Trustees has established a spending policy to annually transfer up to 5% of the fair value of the endowment investments to support operations.

The following summarizes the total investment return on endowment investments for the years ended March 31:

	2016	2015
Interest and dividends	**$ 53,012**	$ 55,934
Net unrealized and realized gains (losses)	**(154,866)**	36,741
	$ (101,854)	$ 92,675

6. Endowment Assets, Cont'd

The Board of Trustees of the Foundation interprets the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of 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) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

Through the Board's interpretation of the law, the Foundation has determined that the provisions do not apply to the Endowment Fund at the University. The Foundation holds certain permanently restricted net assets under split-interest agreements that are not currently invested as endowment investments as of March 31, 2016 and 2015 and, therefore, are not included in this disclosure. Upon maturity of the split-interest agreements, the investments will be invested in accordance with the Foundation's endowment investment policy.

The Foundation's endowment investment policy and strategy is to emphasize total return; that is, the aggregate return from capital

6. Endowment Assets, Cont'd

appreciation and dividend and interest income. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power and long-term growth of capital.

Endowment net asset composition by type of fund as of March 31, 2016 were as follows:

	Unrestricted	Permanently Restricted	Total
Donor – restricted endowment fund	$ -	$ 5,492,292	$ 5,492,292
Board – designated endowment fund	2,450,986	-	2,450,986
Total endowment funds	$ 2,450,986	$ 5,492,292	$ 7,943,278

Changes in endowment net assets for the year ended March 31, 2016 were as follows:

	Unrestricted	Permanently Restricted	Total
Endowment assets, April 1, 2015	$ 2,645,663	$ 4,642,372	$ 7,288,035
Interest and dividends	53,012	-	53,012
Net appreciation (realized and unrealized)	(154,866)	-	(154,866)
Contributions to the Board - designated endowment fund	12,872	-	12,872
Contributions to the Donor – restricted endowment fund	-	1,204,801	1,204,801
Change in value of beneficial interest in assets held by others	-	(117,376)	(117,376)
Change in value of beneficial interest perpetual trust	-	(58,090)	(58,090)
Spending distribution	(105,695)	(179,415)	(285,110)
Endowment assets, March 31, 2016	$ 2,450,986	$ 5,492,292	$ 7,943,278

6. Endowment Assets, Cont'd

Endowment net asset composition by type of fund as of March 31, 2015 were as follows:

	Unrestricted	Permanently Restricted	Total
Donor – restricted endowment fund	$ -	$ 4,642,372	$ 4,642,372
Board – designated endowment fund	2,645,663	-	2,645,663
Total endowment funds	$ 2,645,663	$ 4,642,372	$ 7,288,035

Changes in endowment net assets for the year ended March 31, 2015 were as follows:

	Unrestricted	Permanently Restricted	Total
Endowment assets, April 1, 2014	$ 2,611,225	$ 3,855,248	$ 6,466,473
Interest and dividends	55,934	-	55,934
Net appreciation (realized and unrealized)	36,741	-	36,741
Contributions to the Board - Designated endowment fund	31,915	-	31,915
Contributions to the Donor-restricted endowment fund	-	950,000	950,000
Change in value of beneficial interest in assets held by others	-	(134,023)	(134,023)
Change in value of beneficial interest in perpetual trust	-	144,841	144,841
Spending distribution	(90,152)	(173,694)	(263,846)
Endowment assets, March 31, 2015	$ 2,645,663	$ 4,642,372	$ 7,288,035

7. Line of Credit

During the year ended March 31, 2015, the Foundation had a $1,500,000 line of credit, secured by all assets of the Foundation. The line was amended to $1,100,000 during the year ended March 31, 2016. No amounts were drawn down and no interest expense was recognized on the line of credit for the years ended March 31, 2016 and March 31, 2015. The line expires on October 31, 2016.

8. Notes Payable

The Foundation had an unsecured note payable to the University which was paid in full in October 2015. Interest was accrued monthly at the University's interest rate (2.25% at March 31, 2016 and 2015) plus a one-quarter percent administrative surcharge. The balance of the note was approximately $157,000 at March 31, 2015 and paid in full in October 2015.

Principal payments on the note payable were due in semi-annual installments payable June and December of each year until the note maturity date in June 2015. Interest expense of approximately $500 and $5,000 was recognized for the years ended March 31, 2016 and 2015, respectively.

In March 2008, the Foundation entered into an unsecured loan agreement with a Trustee of the Board pursuant to which the Foundation borrowed approximately $1,800,000 to fund the Improvement Allowance for the restaurant (the "Loan") (Note 9). The Loan is repayable over a 20 year period from restaurant profits and is due in full in 2027. The interest rate on the Loan is 4.46% per annum. The outstanding balance on the Loan was approximately $1,800,000 at March 31, 2016 and 2015, respectively.

In November 2008, the Foundation entered into an additional loan agreement with the same Trustee pursuant to which the Foundation borrowed $165,000 to fund additional improvements to the restaurant (Note 9). The Loan is repayable over a 20 year period from restaurant profits and is due in full in 2027. The interest rate on the Loan is 4.24% per annum. The outstanding balance on the loan was $165,000 at March 31, 2016 and 2015, respectively. Interest expense for these notes was approximately $85,000 for the years ended March 31, 2016 and 2015. Approximately $21,000 was accrued in interest payable on the loans as of March 31, 2016 and 2015.

In June 2009, the Foundation entered into a $5,000,000 loan with a local financial institution secured by the same Trustee and her spouse's personal assets. The loan was secured by residential deeds-of-trust. The loan proceeds have been utilized to purchase 24 residential units (condominium

8. Notes Payable, Cont'd

units located in San Diego County) that provide housing for visiting artists. In June 2010, the loan was modified so that the interest rate is prime less 1% (including a 2% floor rate) or LIBOR plus 1.7% (including a 2% floor rate), with 1, 3 or 6 month LIBOR options. The interest rate to be charged is at the discretion of management. For the years ended March 31, 2016 and March 31, 2015 management selected prime less 1% (2.25% at March 31, 2015).

In June 2015, the loan was modified so that the interest rate is the prime, which is prime less 1% (including a 1.75% floor rate) or LIBOR plus 1.70% (including a 1.75% floor rate), with 1, 3 or 6 month LIBOR options. The outstanding balance on the loan for the years ended March 31, 2016 and 2015 was approximately $3,128,000 and $3,915,000, respectively. The loan matures in May 2016 and provides for a 12-month extension of the maturity date to May 2017 if the Foundation requests, the guarantors provide approval, and the loan is not in default status. Interest expense on the loan for the year ended March 31, 2016 and 2015 was approximately $84,000 and $96,000, respectively.

Future minimum principal payments on notes payable are as follows:

Years Ending March 31,		
2017	$	-
2018		3,128,226
2019		-
2020		-
Thereafter		1,915,000
Total	$	5,043,226

9. Commitments and Contingencies

The Foundation leases office equipment for $5,000 a month under a non-cancelable operating lease which expires in November 2020.

Operating leases

In April 2007, the Foundation executed a lease agreement with the University for rental space to construct and operate a restaurant. The agreement is for ten years (two successive five-year terms) and the base rent is approximately $2,100 per month. Additional rent is based on a percentage of gross restaurant sales and is in addition to the base rent. Normal operations were suspended and no rent was due for the period July 1, 2013 through December 31, 2014. Rent expense of approximately $25,000 and $6,000 was recognized for the years ended March 31, 2016 and 2015, respectively.

Operating leases, cont'd

In April 2014, the Foundation entered into a Food Services Management Agreement (the "Agreement") with James Barry, LLC ("Barry") pursuant to which Barry would undertake mutually approved leasehold improvements and operate the restaurant. Following the execution of the Agreement, the Foundation received a designated contribution of $200,000 which was spent on leasehold improvements for the restaurant. A lease agreement was executed between Barry and the Foundation for the restaurant. The lease is for five years, effective January 1, 2015. The restaurant opened in January 2015. The minimum monthly facilities fee for the lease is $10,000. Additional rent is based on a percentage of gross restaurant sales.

During the first year of the Agreement starting January 2015, the Foundation will return $4,000 per month to Barry to spend on promoting and marketing the restaurant. During the second year of the Agreement, starting January 2016, the Foundation will return $2,500 per month to Barry to spend on promoting and marketing the restaurant. After 2016, none of the minimum monthly facilities fee will be returned by the Foundation to Barry.

Rent income of approximately $120,000 and $30,000 was recognized for the years ended March 31, 2016 and 2015, respectively.

Grants and contracts

The Foundation has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from such audits would not be material.

The Foundation entered into long term employment agreements with the Artistic Director and the Managing Director in March of 2014. These agreements provide that the executive leadership continue through December 2018 and December 2017, respectively. The agreements consist of annual salary commitments and standard benefits. All benefits (health insurance, vacation and retirement contribution) are the same as the benefits received by the rest of the Foundation's annual full-time staff. There are no post-employment provisions.

Litigation

In the normal course of business, the Foundation is occasionally named as a defendant in various lawsuits. It is the opinion of management that the outcome of any pending lawsuits will not materially affect the operation or the financial position of the Foundation.

10. Temporarily Restricted Net Assets

As of March 31, temporarily restricted net assets are available for:

	2016	2015
Time restrictions:		
Future seasons' expenses	**$ 357,848**	$ 723,580
Capital contributions	**620,600**	150,000
Split-interest agreements	**122,912**	134,339
	$ 1,101,360	$1,007,919

11. Permanently Restricted Net Assets

Permanently restricted net assets of $5,500,000 and $4,600,000 as of March 31, 2016 and 2015, respectively, are restricted for investment in perpetuity, the income from which is expendable to support Foundation activities (Note 6). Approximately $3,600,000 and $3,800,000 as of March 31, 2016 and 2015, respectively, of permanently restricted net assets represent a deferred gift, primarily a split-interest gift (Note 4), which is not yet available to support Foundation activities.

12. Net Assets Released from Restrictions

During the years ended March 31, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes as follows:

	2016	2015
Season expenses	**$ 948,085**	$ 584,270
Capital campaign	**57,000**	527,770
Capital expenditures	**796,760**	238,116
	$1,801,845	$ 1,350,156

Sources of the releases for season expenses during the years ended March 31, were:

	2016	2015
Foundations	**$ 454,037**	$ 266,770
Corporate	**237,500**	155,000
Individuals	**186,648**	88,000
Other	**14,500**	45,000
Government	**55,400**	29,500
Total season expenses	**$ 948,085**	$ 584,270

13. Donated Materials, Facilities, and Services

Services, materials and facilities were donated to the Foundation by individuals and organizations for the years ended March 31, 2016 and 2015 totaling approximately $447,000 and $185,000, respectively, have been included in the accompanying statement of activities.

14. Retirement Plans

The Foundation has a 403(b) plan (the "Plan") with a discretionary employer match. For the years ended March 31, 2016 and 2015, the Foundation contributed approximately $79,000 and $88,000 to the Plan, respectively, representing a 3% match.

15. Collective Bargaining Agreements

Substantially all actors, directors, choreographers, designers and musicians employed by the Foundation are subject to collective bargaining. The League of Resident Theatres (LORT) and the Stage Directors and Choreographers Society, Inc. (SDC) completed negotiations on a new agreement which runs from April 2012 through April 2017 and which governs the terms by which directors and choreographers work in LORT theatres. The agreement between LORT and United Scenic Artists (USA) which covers designers was renegotiated in 2012 and runs through June 30, 2017. The current agreement between LORT and Actors Equity Association will be in effect through February 2017. The agreement between the Foundation and the musicians' union will expire in March 2017.

In October 2015, certain non-union represented Foundation production employees voted to be represented by International Alliance of Theatrical and Stage Employees (IATSE), Local 122. Since October 2015, members of the Foundation's management have met regularly with a bargaining committee comprised of the Foundation's management and representatives from IATSE, Local 122, and the Foundation's production staff to negotiate a collective bargaining agreement. It is anticipated that a mutually agreed upon collective bargaining agreement will be executed prior to March 31, 2017.

16. Related Parties

As discussed in Note 8, the Foundation had entered into loan agreements with a Trustee of the Board pursuant to which the Foundation borrowed $1,900,000 related to the construction of the restaurant. As discussed in Note 8, the same Trustee and her spouse guaranteed a loan of $5,000,000 for the purchase of condominiums.

Support revenue included approximately $3,324,000 and $3,889,000 from Trustees of the Board and was provided as an individual gift or through a philanthropic organization or corporate giving program during 2016 and 2015, respectively, of which, approximately, $902,000 and $1,084,000 was due from Trustees of the Board at March 31, 2016 and 2015, respectively.

17. Subsequent Events

The Foundation has evaluated subsequent events through September 20, 2016, which is the date the financial statements were issued. See subsequent events disclosures as discussed in Note 6.