KPMG

# LINCOLN CENTER FOR THE PERFORMING ARTS, INC. AND RELATED ENTITY

Consolidated Financial Statements and Consolidating Schedules

June 30, 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

# Independent Auditors' Report

The Board of Directors
Lincoln Center for the Performing Arts, Inc.:

We have audited the accompanying consolidated financial statements of Lincoln Center for the Performing Arts, Inc. and related entity, which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Center for the Performing Arts, Inc. and related entity as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

*Report on Summarized Comparative Information*

We have previously audited the Lincoln Center for the Performing Arts, Inc. and related entity's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the accompanying consolidating schedules as of and for the year ended June 30, 2017 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

November 17, 2017

**LINCOLN CENTER FOR THE PERFORMING ARTS, INC.**
**AND RELATED ENTITY**

Consolidated Balance Sheet

June 30, 2017
(with comparative amounts for 2016)

| **Assets** | | **2017** | **2016** |
|---|---|---|---|
| Cash and cash equivalents | $ | 12,434,734 | 20,032,856 |
| Restricted cash (note 8) | | 29,297,621 | 44,313,227 |
| Accounts and investment income receivable | | 16,136,507 | 16,336,818 |
| Contributions and grants receivable, net (note 4) | | 108,401,015 | 104,166,392 |
| Prepaid expenses, inventory and other assets | | 10,271,637 | 9,979,270 |
| Investments (notes 5 and 10) | | 248,840,735 | 221,788,532 |
| Fixed assets, net (note 6) | | 360,784,662 | 350,505,199 |
| Total assets | $ | 786,166,911 | 767,122,294 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 16,704,152 | 20,350,178 |
| Deferred revenue | | 20,846,200 | 13,814,961 |
| Fair value of interest rate swaps (note 8) | | 48,169,411 | 66,486,578 |
| Borrowings under line of credit (note 7) | | 25,000,000 | 30,000,000 |
| Long-term debt (note 8) | | 253,276,214 | 250,967,427 |
| Total liabilities | | 363,995,977 | 381,619,144 |
| Commitments and contingencies (notes 7, 12 and 13) | | | |
| Net assets (notes 11 and 15): | | | |
| Unrestricted: | | | |
| General operating | | 10,610,361 | 10,519,128 |
| Board designated | | 112,260,263 | 107,901,409 |
| Redevelopment and other physical capital | | 88,178,128 | 90,011,204 |
| Total unrestricted | | 211,048,752 | 208,431,741 |
| Temporarily restricted | | 113,503,180 | 79,764,823 |
| Permanently restricted | | 97,619,002 | 97,306,586 |
| Total net assets | | 422,170,934 | 385,503,150 |
| Total liabilities and net assets | $ | 786,166,911 | 767,122,294 |

See accompanying notes to consolidated financial statements.

**LINCOLN CENTER FOR THE PERFORMING ARTS, INC.**
**AND RELATED ENTITY**

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized comparative information for 2016)

| | 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | | | | | | | |
| | General operating | Board designated | Redevelopment and other physical plant (note 3) | Total | Temporarily restricted | Permanently restricted | Total | 2016 Total |
| Revenue: | | | | | | | | |
| Contributions, private grants, and bequests | $ 17,215,918 | 130,000 | 223,891 | 17,569,809 | 41,073,171 | 312,416 | 58,955,396 | 67,515,266 |
| Government grants | 619,298 | — | — | 619,298 | 942,495 | — | 1,561,793 | 1,461,167 |
| Investment return (note 5): | | | | | | | | |
| Designated for current operations | 4,908,197 | — | — | 4,908,197 | 5,704,680 | — | 10,612,877 | 10,212,532 |
| In excess of amounts designated for current operations | 55 | 10,695,715 | 13,718 | 10,709,488 | 12,881,669 | — | 23,591,157 | (20,944,805) |
| Net realized and unrealized gain (loss) on swap agreements (note 8) | — | — | 18,317,167 | 18,317,167 | — | — | 18,317,167 | (21,798,387) |
| Box office and other program service revenue | 11,276,497 | — | — | 11,276,497 | — | — | 11,276,497 | 13,452,130 |
| Facilities services (note 9) | 30,901,584 | 3,998,090 | — | 34,899,674 | — | — | 34,899,674 | 33,248,306 |
| Rental income | 35,621,815 | — | — | 35,621,815 | — | — | 35,621,815 | 32,261,889 |
| Other income | 3,501,704 | 79,345 | 208,112 | 3,789,161 | — | — | 3,789,161 | 3,994,191 |
| Special event revenue, net of expenses of $1,196,481 and $1,869,559 in 2017 and 2016, respectively | 9,619,469 | — | — | 9,619,469 | — | — | 9,619,469 | 11,500,531 |
| Net assets released from restrictions | 23,187,867 | (324,209) | 4,000,000 | 26,863,658 | (26,863,658) | — | — | — |
| Total revenue | 136,852,404 | 14,578,941 | 22,762,888 | 174,194,233 | 33,738,357 | 312,416 | 208,245,006 | 130,902,820 |
| Expenses (note 14): | | | | | | | | |
| Program services: | | | | | | | | |
| Performance presentations | 22,498,400 | — | 261,561 | 22,759,961 | — | — | 22,759,961 | 24,762,109 |
| Media development (Live from Lincoln Center) | 5,183,490 | — | — | 5,183,490 | — | — | 5,183,490 | 9,035,518 |
| Education and outreach | 9,888,730 | — | 418,498 | 10,307,228 | — | — | 10,307,228 | 10,024,581 |
| Facilities management and services | 70,344,522 | 338,546 | 12,196,336 | 82,879,404 | — | — | 82,879,404 | 77,065,978 |
| Guest services | 1,479,649 | — | — | 1,479,649 | — | — | 1,479,649 | 1,609,898 |
| New ventures and special projects | 2,279,841 | — | — | 2,279,841 | — | — | 2,279,841 | 1,649,118 |
| Interest and other financing costs, net (note 8) | — | — | 13,830,023 | 13,830,023 | — | — | 13,830,023 | 12,231,320 |
| Total program services | 111,674,632 | 338,546 | 26,706,418 | 138,719,596 | — | — | 138,719,596 | 136,378,522 |
| Supporting services: | | | | | | | | |
| Management and general | 21,992,176 | — | 2,027,687 | 24,019,863 | — | — | 24,019,863 | 28,419,733 |
| Fundraising | 7,202,900 | — | 1,634,863 | 8,837,763 | — | — | 8,837,763 | 7,708,194 |
| Total supporting services | 29,195,076 | — | 3,662,550 | 32,857,626 | — | — | 32,857,626 | 36,127,927 |
| Total expenses | 140,869,708 | 338,546 | 30,368,968 | 171,577,222 | — | — | 171,577,222 | 172,506,449 |
| Excess (deficiency) of revenue over expenses | (4,017,304) | 14,240,395 | (7,606,080) | 2,617,011 | 33,738,357 | 312,416 | 36,667,784 | (41,603,629) |
| Transfers: | | | | | | | | |
| Renewal and replacement reserve | (500,000) | 500,000 | — | — | — | — | — | — |
| Investment in fixed assets | — | (5,773,004) | 5,773,004 | — | — | — | — | — |
| Appropriations in excess of designated spending rate (note 15) | 3,578,537 | (3,578,537) | — | — | — | — | — | — |
| Other interfund transfers | 1,030,000 | (1,030,000) | — | — | — | — | — | — |
| Total transfers | 4,108,537 | (9,881,541) | 5,773,004 | — | — | — | — | — |
| Change in net assets | 91,233 | 4,358,854 | (1,833,076) | 2,617,011 | 33,738,357 | 312,416 | 36,667,784 | (41,603,629) |
| Net assets at beginning of year | 10,519,128 | 107,901,409 | 90,011,204 | 208,431,741 | 79,764,823 | 97,306,586 | 385,503,150 | 427,106,779 |
| Net assets at end of year | $ 10,610,361 | 112,260,263 | 88,178,128 | 211,048,752 | 113,503,180 | 97,619,002 | 422,170,934 | 385,503,150 |

See accompanying notes to consolidated financial statements.

**LINCOLN CENTER FOR THE PERFORMING ARTS, INC.**
**AND RELATED ENTITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2017
(with comparative amounts for 2016)

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 36,667,784 | (41,603,629) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Net realized and unrealized (appreciation) depreciation on investments | | (34,684,295) | 10,031,356 |
| Change in fair value of interest rate swaps | | (18,317,167) | 21,798,387 |
| Depreciation and amortization | | 13,528,830 | 13,771,790 |
| Contributions and grants restricted for permanent endowment | | (312,416) | (357,624) |
| Contributions restricted for capital assets | | (25,500,000) | (25,900,000) |
| Accounting charge for debt defeasance | | 3,284,199 | — |
| Changes in operating assets and liabilities: | | | |
| Accounts and investment income receivable | | 444,118 | (3,456,704) |
| Contributions and grants receivable | | 8,952,549 | 11,016,347 |
| Prepaid expenses, inventory, and other assets | | (229,157) | 1,308,201 |
| Accounts payable and accrued expenses | | (2,047,937) | (341,464) |
| Deferred revenue | | 7,031,239 | 4,619,911 |
| Net cash used in operating activities | | (11,182,253) | (9,113,429) |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | | (24,784,739) | (19,940,377) |
| Accounts receivable - capital | | (243,807) | — |
| Accounts payable and accrued expenses – capital | | (1,598,089) | 2,053,986 |
| Purchase of investments | | (34,512,311) | (51,115,235) |
| Proceeds from the sale of investments | | 42,144,403 | 61,103,122 |
| Change in restricted cash | | 15,015,606 | (19,284,090) |
| Net cash used in investing activities | | (3,978,937) | (27,182,594) |
| Cash flows from financing activities: | | | |
| Contributions restricted for permanent endowment | | 312,416 | 357,624 |
| Contributions restricted for capital assets | | 25,500,000 | 25,900,000 |
| Change in contributions receivable for permanent endowment and capital | | (13,187,172) | (15,621,543) |
| Increase in funds held by bond trustee | | (63,210) | (121) |
| Repayments on long-term debt - redevelopment projects | | (103,638,052) | — |
| Repayments on line of credit borrowing | | (25,000,000) | (5,000,000) |
| Proceeds from bond issuance - redevelopment projects | | 104,370,133 | — |
| Cost of issuance for long-term debt | | (731,047) | — |
| Proceeds from line of credit borrowing | | 20,000,000 | 35,000,000 |
| Net cash provided by financing activities | | 7,563,068 | 40,635,960 |
| Net (decrease) increase in cash and cash equivalents | | (7,598,122) | 4,339,937 |
| Cash and cash equivalents: | | | |
| Beginning of year | | 20,032,856 | 15,692,919 |
| End of year | $ | 12,434,734 | 20,032,856 |
| Interest paid | $ | 11,529,245 | 12,182,765 |

See accompanying notes to consolidated financial statements.

## (1) Business

Lincoln Center for the Performing Arts, Inc. (LCPA) was founded in 1956 to develop and maintain a performing arts complex that would sustain and encourage the musical and performing arts. In addition to operating and maintaining some of the performance facilities at the LCPA site in New York City, LCPA provides programs and presents concerts and other performances that supplement the presentations of its fellow constituent organizations (collectively, the Constituents): the Chamber Music Society of Lincoln Center, the Film Society of Lincoln Center, Jazz at Lincoln Center, the Juilliard School, the Vivian Beaumont Theater (the Lincoln Center Theater), the Metropolitan Opera, the City Center for Music and Drama, Inc. (the New York City Ballet), the Philharmonic Symphony Society of New York, Inc. (New York City Philharmonic Orchestra), the New York Public Library for the Performing Arts, and the School of American Ballet. LCPA has agreements with its Constituents to provide certain use of facilities on the Lincoln Center campus, central facility services and to manage the consolidated Corporate Fund which benefits LCPA and its Constituents. Pursuant to these agreements, the costs of providing these services and the funds raised from the consolidated fundraising campaign are allocated among LCPA and its constituents.

On January 12, 2001, Lincoln Center Development Project, Inc. (LCDP) was incorporated to implement and oversee the redevelopment of certain specified components of the campus. On May 24, 2010, LCDP became a wholly owned related entity of LCPA. In July 2012, LCDP amended its Certificate of Incorporation to expand its purposes beyond the boundaries of the Lincoln Center campus. The amendment embraces Lincoln Center’s goal of fostering the performing arts to improve the cultural life of communities throughout the United States and the world.

LCPA and LCDP are nonprofit organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

## (2) Significant Accounting Policies

### *(a) Consolidation*

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of LCPA and LCDP (collectively, Lincoln Center or the Organization). All significant inter-organization balances and transactions have been eliminated in consolidation.

### *(b) Basis of Presentation*

The consolidated financial statements of Lincoln Center have been prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

### *(c) Net Asset Classifications*

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

- Permanently restricted net assets contain donor-imposed restrictions, which stipulate that the resources be maintained permanently, but permit Lincoln Center to expend part or all of the income derived from the resources for either specified or unspecified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit Lincoln Center to expend the resources as specified. The restrictions are satisfied either by the passage of time or by actions of Lincoln Center.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have been met. Lincoln Center's board of directors has designated a portion of the unrestricted net assets for renewal and replacement reserves, special operating reserves, investment in fixed assets, and long-term investments (funds functioning as endowment).

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as restricted support that increases temporarily restricted net assets; those restrictions expire when the long-lived assets are placed in service.

### *(d) Cash and Cash Equivalents*

Cash equivalents include investments with maturities of three months or less at time of purchase, except for such assets held by Lincoln Center's investment managers as part of their long term investment strategies.

### *(e) Restricted Cash*

Restricted cash consists of cash held as collateral by two major banking institutions under the terms of the interest rate swap agreements.

### *(f) Investments*

Investments with readily determinable fair values in debt and equity securities are reported at fair value based upon the last quoted market price or published net asset value for alternative investment funds with characteristics similar to a mutual fund. Other alternative investments (nontraditional, not readily marketable vehicles) such as limited partnership interests and hedge funds, are stated at estimated fair value, as a practical expedient, based on net asset values provided by the investment managers. Individual investment holdings within the other alternative investments may be invested in both publicly traded securities and less liquid securities, which are valued by the investment managers after considering pertinent factors. Lincoln Center reviews and evaluates methods and assumptions used in determining the net asset values of the other alternative investments. Lincoln Center believes that the carrying amount of such alternative investments is a reasonable estimate of fair value as of June 30, 2017 and 2016. Because the other alternative investments do not have readily determinable fair values, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed, and such difference could be material.



(Continued)

### *(g) Fixed Assets*

Fixed assets, which are recorded at cost, consist of land, building, leasehold improvments, equipment, works of art and construction in progress for assets owned by Lincoln Center. The Lincoln Center campus includes land and property owned by the City of New York (the City), such as the New York State Theater, Library/Museum, Damrosch Park, the Garage and Josie Robertson Plaza. In addition, certain construction costs of Lincoln Center-owned buildings, e.g., the Rose Building, are owned by other tenant Constituents using the building. Such City-owned properties and construction costs owned by other Constituents using Lincoln Center-owned properties are not included in the accompanying consolidated financial statements.

Costs incurred by Lincoln Center relating to improvements to City-owned facilities, including the public spaces, are expensed as incurred. Lincoln Center has been reimbursed by the City for a portion of those project expenses through an agreement with the NYC Economic Development Corporation.

The City-owned garage at Lincoln Center is operated under a License Agreement from the City. Pursuant to the License Agreement with the City, all operating surpluses from the garage are utilized to help fund the security and maintenance expenses for the public areas. If in any year there is an operating deficit, Lincoln Center may apply for reimbursement, but such reimbursement is not guaranteed, and therefore, not recorded as a receivable. If at the end of the year there is an operating surplus, such surplus is reported as a liability in the consolidated balance sheet.

Buildings and building improvements and furniture, fixtures, and equipment are depreciated on the straight-line method over their estimated useful lives (buildings and building improvements – 40 years; furniture, fixtures, and equipment – 3 to 10 years). Works of art are recorded at cost and not depreciated. Normal additions to and replacements of fixed assets below $25,000 are expensed as incurred.

### *(h) Deferred Bond Issuance Costs*

Bond issuance costs are deferred and amortized on a straight-line basis over the term of the bonds.

### *(i) Deferred Revenue*

Deferred revenue represents cash received and not yet earned by LCPA.

### *(j) Operating Measure*

The change in unrestricted general operating net assets includes operating support and revenue, operating expenses, transfers to a Board designated renewal and replacement reserve, transfers to or from other unrestricted funds, and investment return, based on a spending rate, on certain permanently restricted endowment funds and unrestricted net assets functioning as endowment. The spending rate policy is designed to provide a predictable level of investment return (interest, dividends, and appreciation) in support of operations while maintaining the purchasing power of the endowment. For fiscal years 2017 and 2016, 5% of a 20-quarter rolling average market value of such funds was used.



(Continued)

The change in unrestricted general operating net assets excludes depreciation on buildings and equipment, investment return in excess of or less than the spending rate, investment return on renewal and replacement reserves, assessments to constituents for renewal and replacement reserves, bequests, contributions related to gift annuities, contributions restricted for capital projects, revenues and expenses related to the Redevelopment Projects and nonrecurring items.

### *(k) Contributions*

Contributions, including unconditional promises to give (pledges), are reported as revenue at the date the contribution is received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. In 2015, Lincoln Center received a $100,000,000 contribution of which $85,000,000 was and remains conditional and will be recognized as construction milestones are met.

Contributions of assets other than cash are recorded at their estimated fair value.

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor’s payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discount is recorded as additional contribution revenue.

Contributed goods are recognized as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying consolidated financial statements.

### *(l) Functional Classification of Expenses*

The costs of providing Lincoln Center’s programs and other activities have been summarized on a functional basis in the consolidated statement of activities. General and administrative expenses include executive and financial administration, as well as human resources, public relations, in-house legal and information technology. Fundraising activities include salaries and employee benefits of staff that develop proposals for fundraising; solicit contributions; and conduct special fundraising events. Fundraising costs are expensed as incurred.

### *(m) Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant estimates made in the preparation of these consolidated financial statements include the fair value of other alternative investments, fair value of swap agreements, allowance for uncollectible contributions receivable, the useful lives of fixed assets and the functional classification of expenses. Actual results could differ from those estimates.

### *(n) Accounting for Uncertainty in Income Taxes*

Lincoln Center recognizes the benefit of tax positions when it is more likely than not that the position will be sustainable based on the merits of the position.

### *(o) Comparative Financial Information*

The accompanying consolidated statement of activities is presented with prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation; accordingly, such information should be read in conjunction with Lincoln Center’s June 30, 2016 consolidated financial statements, from which the summarized information was derived.

### *(p) Adoption of New Authoritative Accounting Pronouncements*

In fiscal year 2017, LCPA adopted the provisions of Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which requires that debt issuance costs related to the recognized debt liability be presented as a direct reduction from the debt liability on the consolidated balance sheet. Accordingly, LCPA has reclassified the reporting of unamortized debt issuance costs as of June 30, 2016 of $925,769 to a reduction of long-term debt.

### *(q) Reclassifications*

Certain reclassifications have been made to the 2016 consolidated financial information to conform to the 2017 presentation.



(Continued)

**(3) The Redevelopment Project**

The Redevelopment Project includes the planned refurbishment and redevelopment of David Geffen Hall. Redevelopment expenses, excluding depreciation, interest and other financing costs, represent fundraising and general costs incurred for the Redevelopment Project. For the fiscal years ended June 30, 2017 and 2016, total redevelopment expenses were $2,040,872 and $7,288,629, respectively.

LCPA and the New York City Philharmonic Orchestra share certain costs of the Redevelopment Project. LCPA is responsible for contracting and managing cash flow. The payments received from the New York City Philharmonic Orchestra are recorded as deferred revenue in the accompanying consolidated balance sheet and will be recognized as rental income over the remaining term of the constituency agreement once the asset is put into use.

**(4) Contributions and Grants Receivable**

Contributions and grants receivable at June 30, 2017 and 2016 are expected to be collected as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Capital campaign: | | | |
| Within one year | $ | 30,495,845 | 26,901,618 |
| One to five years | | 48,993,334 | 43,688,332 |
| More than five years | | 2,800,000 | 5,483,335 |
| | | 82,289,179 | 76,073,285 |
| Less discount to present value at rates ranging from 0.39% to 3.08% | | (1,173,400) | (1,051,728) |
| Total capital campaign | | 81,115,779 | 75,021,557 |
| Program and endowment: | | | |
| Within one year | | 14,322,407 | 13,871,090 |
| One to five years | | 9,585,887 | 10,801,720 |
| More than five years | | 4,056,620 | 5,134,480 |
| | | 27,964,914 | 29,807,290 |
| Less discount to present value at rates ranging from 0.39% to 2.54% | | (539,678) | (562,455) |
| Total program and endowment | | 27,425,236 | 29,244,835 |
| Allowance for doubtful accounts | | (140,000) | (100,000) |
| Total | $ | 108,401,015 | 104,166,392 |

## (5) Investments

Lincoln Center's investments, at estimated fair value, consisted of the following at June 30:

| | | 2017 | 2016 |
|---|---|---|---|
| Cash and cash equivalents | $ | 912,612 | 2,020,802 |
| Fixed income (a) | | 491,091 | 494,080 |
| Equities (a): | | | |
| Large cap equity | | 41,268,048 | 35,318,885 |
| Small/mid cap equity | | 28,699,860 | 23,656,162 |
| Total equities | | 69,967,908 | 58,975,047 |
| Alternative investments (b): | | | |
| Fixed income | | 17,257,479 | 15,423,415 |
| International equity | | 55,112,882 | 45,641,363 |
| Large cap equity fund | | 9,568,960 | 8,229,892 |
| Absolute return | | 50,100,174 | 49,050,381 |
| Hedged equity | | 40,074,947 | 37,013,878 |
| Private equity and special situations | | 5,354,682 | 4,939,674 |
| Total alternative investments | | 177,469,124 | 160,298,603 |
| Total investments | $ | 248,840,735 | 221,788,532 |

### *(a) Marketable Securities*

Fixed income consists primarily of U.S. Treasury notes. Equities consist of a diversified portfolio principally including securities with large market capitalizations, managed by growth, value, and quantitative disciplines.

### *(b) Alternative Investments*

Alternative investments represent limited partnership and similar interests in funds that invest in public and private securities and follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund.

*Fixed Income* – This category includes a fund that invests primarily in U.S. Treasury Notes, Municipal Bonds, Corporate Bonds, Federal Home Loan Mortgage Corp., Federal National Mortgage Association, and Government National Mortgage Association mortgage backed securities. Redemptions are allowed daily.

*International Equity* – This category includes investments in funds that focus on long only international equities. There is exposure to both developed and emerging markets. Redemptions are allowed at a frequency that ranges from monthly to annually.

*Large Cap Equity Fund* – This category includes long only investments in domestic and foreign, mid- and large cap stocks. Redemptions are allowed quarterly with 30 days' notice.

*Absolute Return* – This category includes multi-strategy absolute return investments focused on analyzing the probability-adjusted returns of individual securities and assets and capturing the alpha in mis-priced assets/securities across conventional and alternative financial strategies. Managers initiate long and short positions targeting solid absolute risk adjusted returns. Some funds are subject to a lock up period up to two years. For those investments not subject to a lock up provision, redemptions are allowed at a frequency that ranges from monthly to annually.

*Hedged Equity* – This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Managers of the hedge funds have the ability to shift investments from value to growth strategies, from small to large capitalization stakes, and from a net long position to a net short position. The investments dominate exposure in the U.S. market, but will also take advantage of investment opportunities in Europe, Asia, and Emerging Markets. Some funds are subject to a lock up period up to three years. For those investments not subject to a lock up provision, redemptions are allowed at a frequency that ranges from quarterly to annually.

*Private Equity and Special Situations* – This category includes a private equity fund of funds that focuses on early stage venture capital, including investments in the technology and life science sectors, and another fund that invests primarily in a diversified portfolio of residential mortgage backed securities, commercial mortgage backed securities, collateralized debt obligations and special situations. These investments are not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. All funds are subject to lock up provisions. At June 30, 2017, Lincoln Center's investments in these funds had remaining estimated lives of up to six years. Remaining commitments to the funds in this category total $7,950,000 as of June 30, 2017.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Lincoln Center's alternative investments contain various monthly, quarterly, and annual redemption restrictions with required written notice ranging from 1 to 90 days. As of June 30, 2017, the following table summarizes the composition of such investments by the various redemption provisions:

| Redemption period | Amount |
|---|---|
| Daily | $ 20,471,033 |
| Monthly | 46,108,424 |
| Quarterly | 38,411,191 |
| Semiannual | 8,068,053 |
| Annual | 46,762,853 |
| Lock up | 17,647,570 |
| Total | $ 177,469,124 |

Investment return and its classification in the consolidated statement of activities were as follows:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividend income | $ 808,948 | 483,647 |
| Investment management and custodial fees | (1,289,209) | (1,184,564) |
| Net appreciation (depreciation) in fair value of investments | 34,684,295 | (10,031,356) |
| Total investment return (loss) | 34,204,034 | (10,732,273) |
| Less investment return available under spending policy, including temporarily restricted amounts of $5,704,680 and $5,474,333 in 2017 and 2016, respectively | 10,612,877 | 10,212,532 |
| Investment return greater (less) than amounts available under spending policy, including temporarily restricted amounts of $12,881,669 and $(11,230,971) in 2017 and 2016, respectively | $ 23,591,157 | (20,944,805) |



(Continued)

## (6) Fixed Assets

Fixed assets balances were as follows at June 30:

| | | 2017 | 2016 |
|---|---|---|---|
| Land | $ | 15,513,280 | 15,513,280 |
| Building and building improvements | | 521,155,129 | 517,848,749 |
| Furniture, fixtures, and equipment | | 16,166,178 | 14,422,596 |
| Fountain and works of art | | 1,690,114 | 1,690,114 |
| Leasehold improvements | | 28,207,974 | 27,320,422 |
| Construction in progress | | 33,072,611 | 14,225,386 |
| Total fixed assets | | 615,805,286 | 591,020,547 |
| Less accumulated depreciation and amortization | | (255,020,624) | (240,515,348) |
| Fixed assets, net | $ | 360,784,662 | 350,505,199 |

Total depreciation expense for fiscal years ended June 30, 2017 and 2016 was $14,505,276 and $13,918,864, respectively.

## (7) Lines of Credit

On March 15, 2016, Lincoln Center amended the $100,000,000 revolving credit note agreement bearing interest at LIBOR plus 40bps with a 0.05% nonuse fee that was entered into February 12, 2014. The amendment extended the agreement until March 15, 2018. There is $25,000,000 and $30,000,000 outstanding at June 30, 2017 and 2016, with varying repayment dates within 60 days of year-end.

## (8) Long Term Debt

Long term debt at June 30, 2017 and 2016 consists of the following:

| | | 2017 | 2016 |
|---|---|---|---|
| Trust for Cultural Resources of The City of New York: | | | |
| Series 2008A Revenue Bonds | $ | 151,250,000 | 151,250,000 |
| Series 2008C Revenue Bonds | | — | 100,000,000 |
| Series 2016A Revenue Bonds | | 87,575,000 | — |
| Long-term Debt | | 238,825,000 | 251,250,000 |
| Unamortized bond premium | | 15,815,417 | 643,196 |
| Unamortized debt issuance costs | | (1,364,203) | (925,769) |
| Total long-term debt | $ | 253,276,214 | 250,967,427 |

In fiscal year 2006, Lincoln Center entered into a long-term tax-exempt borrowing in the amount of $150,000,000 with the Trust for Cultural Resources of The City of New York (the Trust) for the purpose of financing, through proceeds from the Series 2006A Revenue Bonds (Series 2006A Bonds), certain costs of the previous Redevelopment Projects. The Series 2006A Bonds were refunded in July 2008 with the issuance, through the Trust, of $151,250,000 Series 2008A variable rate tax exempt bonds (Series 2008A Bonds). The Series 2008A Bonds are due December 1, 2035 and were secured by two irrevocable direct pay letters of credit issued by two major banks that expired on June 17, 2015. In June 2015 with the expiration of these two letters of credit, the 2008A Bonds totaling $151,250,000 were purchased by Banc of America Capital Corporation through a bank direct purchase, which is subject to a mandatory tender in June 2020. The bond is integrated with the below mentioned fixed interest rate swaps totaling $145,000,000.

In October 2008, Lincoln Center entered into a long term tax exempt borrowing in the amount of $100,000,000 with the Trust for the purpose of financing, through proceeds from the Series 2008C Revenue Bonds (Series 2008C Bonds), certain costs relating to the Redevelopment Projects. The Series 2008C Bonds bore interest at 5.75% on $84,350,000 and 5.25% on $15,650,000 of the bonds with $59,525,000 due on December 1, 2016 and $40,475,000 due on December 1, 2018. The bonds were issued at a premium.

In November 2016, Lincoln Center, in conjunction with the Trust, refinanced the Series 2008C Bonds through the issuance of $87,575,000 of long-term tax-exempt Series 2016A Revenue Bonds (Series 2016A Bonds). The Series 2016A Bonds mature December 1, 2026, bear interest at 5% per annum and were issued at a premium of $16,795,133. The Series 2008C bonds were deemed legally defeased at the time of refinancing. Although the refunding and issuance of new bonds generates economic benefits expected to be realized over the life of the bonds, the transaction resulted in an accounting charge of approximately $3,284,000, which includes the write-off of related unamortized bond issuance costs of $174,486 and net premium of ($528,339) and is reported as interest expense and other financing costs on the accompanying consolidated statement of activities.

Effective January 17, 2006, Lincoln Center entered into a fixed rate interest swap agreement with a major investment banking institution as a hedge on $95,000,000 of variable rate debt. Such agreement expires on June 1, 2034. Under the terms of the agreement, Lincoln Center pays interest at a predetermined fixed rate of 3.70% and receives a variable rate. The collateral on this agreement was $18,930,469 and $27,166,075 at June 30, 2017 and 2016, respectively.

Lincoln Center also has an interest rate swap contract for $50,000,000 with a major bank in which Lincoln Center pays at a predetermined fixed rate of 4.01% and receives a variable rate, which expires on September 1, 2038. The collateral on this agreement was $10,367,152 and $17,147,152 at June 30, 2017 and 2016, respectively.

The collateral held under these agreements is reported as restricted cash on the accompanying consolidated balance sheet.



(Continued)

The aggregate estimated fair value of these two agreements is $(48,169,411) and $(66,486,578) at June 30, 2017 and 2016, respectively. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments and is considered to be Level 2 in the fair value hierarchy. Such amount is recorded as a liability in the consolidated balance sheets. Unrealized gains/ (losses) of $18,317,167 and $(21,798,387) on these swaps are reflected in the consolidated statements of activities for the years ended June 30, 2017 and 2016, respectively.

Interest expense reported in the consolidated statements of activities related to long term debt is $11,529,245 and $12,182,765 in 2017 and 2016, respectively.

## (9) Rose Building Garage

In 1990, Lincoln Center entered into a management agreement with Performance Parking LLC for management of the Rose Building Garage, which expires on June 30, 2018. Under terms of the agreement, as amended, Performance Parking LLC is entitled to the net receipts and pays Lincoln Center an annual amount. Lincoln Center received $2,770,905 and $2,716,573 in fiscal years 2017 and 2016, respectively. Such agreement provides for an increase each year of 2%, subject to further escalation as defined in the agreement.

## (10) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices or published net asset value (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

For certain alternative investments, which do not have readily determinable fair values, including hedge funds, limited partnerships, and other funds, fair value is estimated using net asset value per share or its equivalent, as a practical expedient, as reported by the investment managers. In accordance with ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, such investments are excluded from the fair value hierarchy levels.

Lincoln Center's investments at June 30, 2017 and 2016 that are reported at fair value are summarized in the following tables by their classification in the fair value hierarchy:

| | | **2017** | **2016** |
|---|---|---|---|
| Investments: | | | |
| Level 1: | | | |
| Cash and cash equivalents | $ | 912,612 | 2,020,802 |
| Fixed income | | 491,091 | 494,080 |
| Equities: | | | |
| Large cap equity | | 41,268,048 | 35,318,885 |
| Small/mid cap equity | | 28,699,860 | 23,656,162 |
| Alternative investments with readily determinable fair value | | 20,471,033 | 18,485,638 |
| | | 91,842,644 | 79,975,567 |
| Alternative investments measured at net asset value as a practical expedient | | 156,998,091 | 141,812,965 |
| Total investments | $ | 248,840,735 | 221,788,532 |

## (11) Net Assets

Net assets at June 30, 2017 and 2016 were available for the following purposes:

| | | |
|---|---|---|
| Board designated: | | |
| Board-designated endowment funds | 104,702,273 | 98,987,272 |
| Renewal and replacement reserves | 4,407,627 | 5,941,742 |
| Operations – special reserves | 3,150,363 | 2,972,395 |
| Total board designated | 112,260,263 | 107,901,409 |
| Redevelopment and other physical capital | 88,178,128 | 90,011,204 |
| Total unrestricted | 211,048,752 | 208,431,741 |
| Temporarily restricted for: | | |
| Program support, primarily accumulated gains on endowment of $46,365,144 and $33,530,648 in 2017 and 2016, respectively | 62,791,273 | 53,930,072 |
| Lincoln Center Redevelopment Projects and other capital | 50,711,907 | 25,834,751 |
| Total temporarily restricted | 113,503,180 | 79,764,823 |
| Permanently restricted – endowment funds, income restricted for various programs | 97,619,002 | 97,306,586 |
| Total net assets | $ 422,170,934 | 385,503,150 |

## (12) Pension Plan

Lincoln Center participates in a multiple employer defined benefit pension plan (the Plan) along with certain of its Constituents, which covers substantially all nonunion employees. Employers' contributions to the plan are commingled and available to pay the benefits of all plan participants. As of June 30, 2016 and 2015 (the most recent actuarial valuation information available), the actuarial value of plan assets was $69,856,659 and $67,642,861, the actuarial accrued liability was $73,333,894 and $72,842,928, and the funded percentage was 95% and 93%, respectively. In addition, at June 30, 2016 and 2015, the fair value of plan net assets available for benefits was $60,724,263 and $64,971,854, the present value of accumulated benefit obligation was $72,571,959 and $66,809,203, and the funded percentage based on the fair value of plan net assets was 84% and 97%, respectively. For fiscal years 2017 and 2016, Lincoln Center contributed $1,409,596 and $1,324,250, respectively, to the nonunion pension plan.

The Plan was amended to include a modified freeze effective July 1, 2017. Current particpants will maintain a modified pension benefit. Employees hired after June 30, 2017 will not be eligible to participate in the Plan. Such employees will be able to participate in a modified 403(b) Plan, subject to eligibility requirements.

Lincoln Center also participates in two significant multiemployer pension plans based upon collective bargaining agreements. The two plans are outlined in the table below. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status is available at each plan's year end. The zone status is based on information that Lincoln Center received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Both plans certified a green zone status for the plan years ended 2016 and 2015. Similarly, neither plan imposed a surcharge as part of their respective collective bargaining agreements. In addition, Lincoln Center would be responsible for any withdrawal liability under the agreements with the unions.

| Pension fund | EIN | Plan year-end | Contributions from LCPA 2017 | Contributions from LCPA 2016 | Agreement expiration |
|---|---|---|---|---|---|
| 32 BJ/Broadway League Pension Fund | 13-1998219 | 12/31/2016 | $ 578,754 | 575,155 | 8/13/2019 |
| Treasurers and Ticket Sellers Local 751 Pension Fund | 13-6164776 | 8/31/2016 | 152,541 | 158,379 | 10/31/2018<br>8/31/2020 |

Lincoln Center also participates in ten plans that are not considered significant. Lincoln Center contributed less than 5% of the total contributions to these plans, which collectively amounted to $1,203,564 and $1,087,728 for fiscal years 2017 and 2016, respectively.

## (13) Litigation

Lincoln Center is involved in several legal proceedings and claims. Management believes that the liabilities, if any, resulting from such proceedings will not have a material adverse effect on the financial condition of Lincoln Center.

## (14) Functional Expenses

| | | Program expenses | Management and general | Fund raising | 2017 | 2016 |
|---|---|---|---|---|---|---|
| | | | | (In thousands) | | |
| Salaries and benefits | $ | 59,285 | 15,540 | 5,327 | 80,152 | 78,664 |
| Artists and performing fees | | 12,748 | — | — | 12,748 | 14,088 |
| Legal and other professional fees | | 1,523 | 2,834 | 823 | 5,180 | 8,563 |
| Travel and entertainment | | 1,056 | 356 | 139 | 1,551 | 1,932 |
| Equipment, production, and space rental | | 10,731 | 335 | 11 | 11,077 | 11,739 |
| Advertising and promotion | | 3,270 | 289 | 334 | 3,893 | 4,646 |
| Insurance | | 1,612 | 109 | — | 1,721 | 1,747 |
| Facilities management | | 9,967 | 961 | 165 | 11,093 | 10,324 |
| Utilities | | 7,140 | 28 | — | 7,168 | 7,065 |
| Other | | 4,681 | 2,410 | 1,568 | 8,659 | 7,588 |
| Depreciation | | 12,876 | 1,158 | 471 | 14,505 | 13,919 |
| Interest and other financing costs | | 13,830 | — | — | 13,830 | 12,231 |
| Total | $ | 138,719 | 24,020 | 8,838 | 171,577 | 172,506 |

## (15) Endowment Funds

Lincoln Center's endowment consists of 66 individual funds, including both donor restricted endowment funds and amounts designated by the Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of Lincoln Center has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as allowing Lincoln Center to appropriate for expenditures or accumulate so much of a donor restricted endowment fund as Lincoln Center determines is prudent considering the uses, benefits, purposes, and duration for which the donor restricted endowment fund is established, subject to the intent of the donor. Lincoln Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to protect the original value of the gift after inflation. Under this policy, the endowment assets are invested in a manner that is intended to produce results consistent with Lincoln Center's overall investment strategy.

Accounting guidance associated with NYPMIFA requires the portion of the donor restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Lincoln Center classifies as permanently restricted net assets the original value of gifts to the permanent endowment and the investment return required by the donor to be added to the permanent endowment.



(Continued)

The net asset classes of Lincoln Center's endowment funds, including contributions receivable of $3,476,008 and $5,778,592 and split interest agreements of $1,152,085 and $1,338,719 as of June 30, 2017 and 2016, respectively are as follows:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted funds | $ — | 46,365,144 | 97,619,002 | 143,984,146 |
| Board-designated fund | 104,702,273 | — | — | 104,702,273 |
| Total endowment | $ 104,702,273 | 46,365,144 | 97,619,002 | 248,686,419 |

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted funds | $ — | 33,530,648 | 97,306,586 | 130,837,234 |
| Board-designated fund | 98,987,272 | — | — | 98,987,272 |
| Total endowment | $ 98,987,272 | 33,530,648 | 97,306,586 | 229,824,506 |

The following tables present changes in Lincoln Center's endowment funds, including contributions receivable, for the years ended June 30, 2017 and 2016:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, June 30, 2016 | $ 98,987,272 | 33,530,648 | 97,306,586 | 229,824,506 |
| Interest and dividends | 332,924 | 476,024 | - | 808,948 |
| Investment management and custodial fees | (587,224) | (701,985) | - | (1,289,209) |
| Net appreciation in fair value of investments | 15,871,985 | 18,812,310 | - | 34,684,295 |
| Contributions and designations | 130,000 | - | 312,416 | 442,416 |
| Amounts appropriated for operations | (4,908,197) | (5,704,680) | - | (10,612,877) |
| Other | (1,545,950) | (47,173) | - | (1,593,123) |
| Appropriations in excess of designated spending rate | (3,578,537) | - | - | (3,578,537) |
| Endowment net assets, June 30, 2017 | $ 104,702,273 | 46,365,144 | 97,619,002 | 248,686,419 |

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, June 30, 2015 | $ 109,027,305 | 45,674,730 | 96,948,962 | 251,650,997 |
| Interest and dividends | 220,860 | 262,787 | - | 483,647 |
| Investment management and custodial fees | (548,194) | (636,370) | - | (1,184,564) |
| Net depreciation in fair value of investments | (4,648,301) | (5,383,055) | - | (10,031,356) |
| Contributions and designations | 10,000 | - | 357,624 | 367,624 |
| Amounts appropriated for operations | (4,738,199) | (5,474,333) | - | (10,212,532) |
| Other | (336,199) | (913,111) | | (1,249,310) |
| Endowment net assets, June 30, 2016 | $ 98,987,272 | 33,530,648 | 97,306,586 | 229,824,506 |

### *(a) Funds with Deficiencies*

From time to time, the fair value of assets associated with an individual donor restricted endowment fund may fall below the original value of the fund. Deficiencies of this nature are reported as unrestricted net assets. There were no funds with deficiencies at June 30, 2017 or 2016.

### *(b) Return Objectives and Risk Parameters*

Lincoln Center has adopted investment policies for its endowment that attempt to provide a reasonable level of support, as determined by Lincoln Center's spending policy, while seeking to preserve the real value of the endowment assets over time. Lincoln Center relies on a total return strategy under which investment returns are achieved through both appreciation (realized and unrealized) and yield (interest and dividends). Investments are diversified by asset class, as well as by investment manager and style, with a focus on achieving long term return objectives within prudent risk constraints.


(Continued)

## (16) Related Party Transactions

Members of Lincoln Center's Board of Directors and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with Lincoln Center. For senior management, Lincoln Center requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with Lincoln Center. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of Lincoln Center, and to undertake periodic review of continuing such relationships. Lincoln Center has a written conflict of interest policy that requires, among other things, that no member of the Board of Directors can participate in any decision in which he or she (or immediate family member) has a material financial interest. Each director is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether Lincoln Center does business with an entity in which the director has a material financial interest. When such a relationship exists, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of Lincoln Center, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

## (17) Subsequent Events

In September 2017, management and the Boards of Directors of Lincoln Center and the New York City Philharmonic Orchestra voted to re-envision the strategy that will steer the forthcoming renovations of David Geffen Hall. The two organizations will be moving forward with a new phased program centering on improving audience and artist experiences inside the hall. The goal of the project remains to create a welcoming and world-class concert hall, which will include a reimagined hall configuration, with a focus on acoustics and enlivening the hall's lobbies and other public spaces.

As of June 30, 2017, construction in progress related to the previous David Geffen Hall redevelopment strategy amounted to $26,888,606 and deferred revenue, which represents the cash received from New York City Philharmonic Orchestra for their share of certain costs related to the previous strategy, amounted to $10,518,547. Management is currently evaluating the impact of the re-envisioning and phasing of the planned renovation. In addition, pledges receivable related to the David Geffen Hall campaign, net of present value discount, amounted to $37,897,224 and contributions collected as of June 30, 2017 amounted to $13,514,683.

Schedule 1

**LINCOLN CENTER FOR THE PERFORMING ARTS, INC.**
**AND RELATED ENTITY**

Consolidating Balance Sheet

June 30, 2017

| Assets | Lincoln Center for the Performing Arts, Inc. | Lincoln Center Development Project | Total | Consolidation and elimination entries | Consolidated total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 12,334,525 | 100,209 | 12,434,734 | — | 12,434,734 |
| Restricted cash | 29,297,621 | — | 29,297,621 | — | 29,297,621 |
| Accounts and investment income receivable | 16,124,781 | 1,073,627 | 17,198,408 | (1,061,901) | 16,136,507 |
| Contributions and grants receivable, net | 108,401,015 | — | 108,401,015 | — | 108,401,015 |
| Prepaid expenses, inventory, and other assets | 10,266,562 | 5,075 | 10,271,637 | — | 10,271,637 |
| Investments | 248,840,735 | — | 248,840,735 | — | 248,840,735 |
| Fixed assets, net | 360,528,445 | 256,217 | 360,784,662 | — | 360,784,662 |
| Total assets | $ 785,793,684 | 1,435,128 | 787,228,812 | (1,061,901) | 786,166,911 |
| **Liabilities and Net Assets** | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 16,404,714 | 1,361,339 | 17,766,053 | (1,061,901) | 16,704,152 |
| Deferred revenue | 20,846,200 | — | 20,846,200 | — | 20,846,200 |
| Fair value of interest rate swaps | 48,169,411 | — | 48,169,411 | — | 48,169,411 |
| Borrowings under line of credit | 25,000,000 | — | 25,000,000 | — | 25,000,000 |
| Long-term debt | 253,276,214 | — | 253,276,214 | — | 253,276,214 |
| Total liabilities | 363,696,539 | 1,361,339 | 365,057,878 | (1,061,901) | 363,995,977 |
| Commitments and contingencies | | | | | |
| Net assets: | | | | | |
| Unrestricted: | | | | | |
| General operating | 10,610,361 | — | 10,610,361 | — | 10,610,361 |
| Board designated | 112,260,263 | — | 112,260,263 | — | 112,260,263 |
| Redevelopment and other physical capital | 88,104,339 | 73,789 | 88,178,128 | — | 88,178,128 |
| Total unrestricted | 210,974,963 | 73,789 | 211,048,752 | — | 211,048,752 |
| Temporarily restricted | 113,503,180 | — | 113,503,180 | — | 113,503,180 |
| Permanently restricted | 97,619,002 | — | 97,619,002 | — | 97,619,002 |
| Total net assets | 422,097,145 | 73,789 | 422,170,934 | — | 422,170,934 |
| Total liabilities and net assets | $ 785,793,684 | 1,435,128 | 787,228,812 | (1,061,901) | 786,166,911 |

See accompanying independent auditors' report.

Schedule 2

**LINCOLN CENTER FOR THE PERFORMING ARTS, INC.**
**AND RELATED ENTITY**

Consolidating Statement of Activities

Year ended June 30, 2017

| | Lincoln Center for the Performing Arts, Inc. | Lincoln Center Development Project | Total | Consolidation and elimination entries | Consolidated total |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Contributions, private grants, and bequests | $ 58,955,396 | — | 58,955,396 | — | 58,955,396 |
| Government grants | 1,561,793 | — | 1,561,793 | — | 1,561,793 |
| Investment return: | | | | | |
| Designated for current operations | 10,612,877 | — | 10,612,877 | — | 10,612,877 |
| In excess of amounts designated for current operations | 23,591,157 | — | 23,591,157 | — | 23,591,157 |
| Net realized and unrealized gain (loss) on swap agreements | 18,317,167 | — | 18,317,167 | — | 18,317,167 |
| Box office and other program service revenue | 11,276,497 | — | 11,276,497 | — | 11,276,497 |
| Facilities services | 34,901,132 | — | 34,901,132 | (1,458) | 34,899,674 |
| Rental income | 35,630,654 | — | 35,630,654 | (8,839) | 35,621,815 |
| Other income | 3,789,161 | 19,320,822 | 23,109,983 | (19,320,822) | 3,789,161 |
| Special event revenue, net of expenses of $1,196,481 | 9,619,469 | — | 9,619,469 | — | 9,619,469 |
| Total revenue | 208,255,303 | 19,320,822 | 227,576,125 | (19,331,119) | 208,245,006 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Performance presentations | 22,759,961 | — | 22,759,961 | — | 22,759,961 |
| Media development (Live from Lincoln Center) | 5,183,490 | — | 5,183,490 | — | 5,183,490 |
| Education and outreach | 10,307,228 | — | 10,307,228 | — | 10,307,228 |
| Facilities management and services | 82,889,701 | — | 82,889,701 | (10,297) | 82,879,404 |
| Guest services | 1,479,649 | — | 1,479,649 | — | 1,479,649 |
| New ventures and special projects | 2,279,841 | — | 2,279,841 | — | 2,279,841 |
| Redevelopment projects | — | 13,766,806 | 13,766,806 | (13,766,806) | — |
| Interest and other financing costs, net | 13,830,023 | — | 13,830,023 | — | 13,830,023 |
| Total program services | 138,729,893 | 13,766,806 | 152,496,699 | (13,777,103) | 138,719,596 |
| Supporting services: | | | | | |
| Management and general | 24,038,499 | 5,535,380 | 29,573,879 | (5,554,016) | 24,019,863 |
| Fundraising | 8,837,763 | — | 8,837,763 | — | 8,837,763 |
| Total supporting services | 32,876,262 | 5,535,380 | 38,411,642 | (5,554,016) | 32,857,626 |
| Total expenses | 171,606,155 | 19,302,186 | 190,908,341 | (19,331,119) | 171,577,222 |
| Change in net assets | 36,649,148 | 18,636 | 36,667,784 | — | 36,667,784 |
| Net assets at beginning of year | 385,447,997 | 55,153 | 385,503,150 | — | 385,503,150 |
| Net assets at end of year | $ 422,097,145 | 73,789 | 422,170,934 | — | 422,170,934 |

See accompanying independent auditors’ report.