

**THE PERFORMING ARTS CENTER
OF LOS ANGELES COUNTY
FINANCIAL REPORT
JUNE 30, 2022**

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 – 3
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statement of Activities	5 – 7
Statement of Functional Expenses	8
Statements of Cash Flows	9 – 10
Notes to Financial Statements	11 – 31

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Performing Arts Center of Los Angeles County

Opinion

We have audited the financial statements of Performing Arts Center of Los Angeles County (TMC), which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TMC as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TMC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TMC's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TMC’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TMC’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited TMC's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of TMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TMC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TMC's internal control over financial reporting and compliance.

Singer Lewak LLP

October 31, 2022

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

ASSETS		
	2022	2021
Cash and cash equivalents	\$ 28,047,070	\$ 23,485,647
Accounts receivable, net	3,515,207	2,355,293
Contributions receivable, net	38,575,383	38,213,919
Prepaid expenses and other assets	1,681,779	548,946
Contract acquisition costs	4,340,239	-
Property and equipment, net	679,413	716,168
Investments	34,884,018	42,075,060
Beneficial interest in assets held by foundation	36,661,363	39,132,374
Total assets	<u>\$ 148,384,472</u>	<u>\$ 146,527,407</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 8,909,437	\$ 10,345,576
Deferred fees and revenues	5,170,640	3,049,036
Deferred restaurant revenue	4,292,192	-
Accrued pension benefit obligation	2,788,370	3,555,396
Debt	21,624,065	22,842,437
Total liabilities	<u>42,784,704</u>	<u>39,792,445</u>
Net Assets		
Without donor restrictions	7,488,708	8,939,487
With donor restrictions	98,111,060	97,795,475
Total net assets	<u>105,599,768</u>	<u>106,734,962</u>
Total liabilities and net assets	<u>\$ 148,384,472</u>	<u>\$ 146,527,407</u>

See notes to financial statements

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022
(Summarized Information for the Year Ended June 30, 2021)

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Capital	Total		2022	2021
Revenue and support						
TMC Operations						
Center operations						
LA County funding	\$ 23,860,616	\$ -	\$ 23,860,616	\$ -	\$ 23,860,616	\$20,488,847
LA County in-kind contributions	5,262,436	-	5,262,436	-	5,262,436	4,387,384
Rents	4,687,372	-	4,687,372	-	4,687,372	3,091,749
Facility fees	1,860,142	-	1,860,142	-	1,860,142	407,586
Service billings	3,136,669	-	3,136,669	-	3,136,669	1,468,134
Total center operations	38,807,235	-	38,807,235	-	38,807,235	29,843,700
Park operations						
LA County funding	3,914,701	-	3,914,701	-	3,914,701	5,020,298
LA County in-kind utilities	226,494	-	226,494	-	226,494	223,355
Rents	587,414	-	587,414	-	587,414	137,166
Service billings	473,926	-	473,926	-	473,926	160,670
Total park operations	5,202,535	-	5,202,535	-	5,202,535	5,541,489
Founders Rooms operations	634,274	-	634,274	-	634,274	112,000
Total TMC Operations	44,644,044	-	44,644,044	-	44,644,044	35,497,189
TMC Arts						
Presenting	2,604,080	-	2,604,080	-	2,604,080	1,181,970
Education, Active Arts and Spotlight	708,316	-	708,316	-	708,316	384,526
Other income	95,560	-	95,560	-	95,560	4,590
Total TMC Arts	3,407,956	-	3,407,956	-	3,407,956	1,571,086
Capital improvements						
Restaurant improvement	-	346,844	346,844	-	346,844	401,283
Total capital improvements	-	346,844	346,844	-	346,844	401,283
Investment income appropriations	874,552	38,243	912,795	-	912,795	1,018,170
Interest income	12,979	61	13,040	-	13,040	12,332
Total operating revenue	48,939,531	385,148	49,324,679	-	49,324,679	38,500,060
Public support						
Contributions and net special events	5,911,272	832,225	6,743,497	15,490,881	22,234,378	42,247,563
Net assets released from restrictions	4,278,875	4,547,347	8,826,222	(8,826,222)	-	-
Total public support	10,190,147	5,379,572	15,569,719	6,664,659	22,234,378	42,247,563
Total revenue and support	59,129,678	5,764,720	64,894,398	6,664,659	71,559,057	80,747,623

See notes to financial statements.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022
(Summarized Information for the Year Ended June 30, 2021)

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Capital	Total		2022	2021
Expenses						
TMC Operations						
Center operations						
Facility operations	\$ 18,913,820	\$ -	\$ 18,913,820	\$ -	\$ 18,913,820	\$20,378,131
Stage operations	3,225,152	-	3,225,152	-	3,225,152	1,244,587
Theater operations	5,159,447	-	5,159,447	-	5,159,447	640,626
Other center operations	1,909,420	-	1,909,420	-	1,909,420	998,650
In-kind utilities	5,262,436	-	5,262,436	-	5,262,436	4,387,384
Total center operations	34,470,275	-	34,470,275	-	34,470,275	27,649,378
Park operations						
Operations	2,727,490	-	2,727,490	-	2,727,490	3,052,899
Programming	1,837,584	-	1,837,584	-	1,837,584	2,020,849
In-kind utilities	226,494	-	226,494	-	226,494	223,355
Total park operations	4,791,568	-	4,791,568	-	4,791,568	5,297,103
Founders Rooms operations	1,048,770	-	1,048,770	-	1,048,770	248,088
Total TMC operations	40,310,613	-	40,310,613	-	40,310,613	33,194,569
TMC Arts						
Presenting	7,029,065	-	7,029,065	-	7,029,065	3,039,022
Education, Active Arts and Spotlight	4,135,278	-	4,135,278	-	4,135,278	3,079,593
Contributions to resident companies	621,443	-	621,443	-	621,443	652,061
Other expenses	299,567	-	299,567	-	299,567	181,900
Total TMC Arts	12,085,353	-	12,085,353	-	12,085,353	6,952,576
Capital improvements						
DCP extraordinary maintenance	-	917,317	917,317	-	917,317	-
Plaza renovation	-	164,859	164,859	-	164,859	94,133
Switchgear renovation	-	3,373,845	3,373,845	-	3,373,845	429,957
Mark Taper Forum debt service	-	491,491	491,491	-	491,491	641,776
Contract acquisition amortization	-	298,797	298,797	-	298,797	496,445
Terrazzo replacement	-	130,728	130,728	-	130,728	-
Total capital improvements	-	5,377,037	5,377,037	-	5,377,037	1,662,311
Total	52,395,966	5,377,037	57,773,003	-	57,773,003	41,809,456
Supporting services						
Administration	5,241,826	252,013	5,493,839	-	5,493,839	3,999,665
Fundraising	3,750,671	-	3,750,671	-	3,750,671	2,561,325
Total supporting services	8,992,497	252,013	9,244,510	-	9,244,510	6,560,990
Total operating expenses	61,388,463	5,629,050	67,017,513	-	67,017,513	48,370,446

See notes to financial statements.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022
(Summarized Information for the Year Ended June 30, 2021)

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Capital	Total		2022	2021
Change in net assets resulting from operating revenues and expenses	\$ (2,258,785)	\$ 135,670	\$ (2,123,115)	\$ 6,664,659	\$ 4,541,544	\$32,377,177
Non-operating activities						
Non-operating contributions	4,417,604	1,843,932	6,261,536	-	6,261,536	-
Loss on uncollectible promises to give, net of discount	-	-	-	(5,842)	(5,842)	(578,327)
Loss on event cancellation	-	-	-	-	-	(300,000)
Net investment return (loss), net of appropriations	(1,766,161)	(4,440,856)	(6,207,017)	(985,148)	(7,192,165)	9,306,526
Change in value of beneficial interests	-	-	-	(5,358,084)	(5,358,084)	7,630,716
Other comprehensive income related to pension obligation	617,817	-	617,817	-	617,817	2,933,851
Fund transfer	(2,461,254)	2,461,254	-	-	-	-
Total non-operating activities	808,006	(135,670)	672,336	(6,349,074)	(5,676,738)	18,992,766
Change in net assets	(1,450,779)	-	(1,450,779)	315,585	(1,135,194)	51,369,943
Net assets, beginning of year	8,939,487	-	8,939,487	97,795,475	106,734,962	55,365,019
Net assets, end of year	\$ 7,488,708	\$ -	\$ 7,488,708	\$ 98,111,060	\$ 105,599,768	\$ 106,734,962

See notes to financial statements.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022
(Summarized Information for the Year Ended June 30, 2021)**

	Program Services				Supporting Services			Total	
	Operations	Arts	Capital	Total	Management	Fundraising	Total	2022	2021
Expenses									
Salaries and wages	\$ 14,967,785	\$ 4,050,648	\$ -	\$ 19,018,433	\$ 2,745,801	\$ 1,923,358	\$ 4,669,159	\$ 23,687,592	\$15,711,656
Pension contributions	1,054,224	70,335	-	1,124,559	71,252	60,816	132,068	1,256,627	1,043,962
Other employee benefits	1,919,264	168,701	-	2,087,965	165,247	150,110	315,357	2,403,322	1,750,360
Payroll taxes	1,371,855	181,099	-	1,552,954	30,983	130,080	161,063	1,714,017	1,151,460
Fees for service	1,332,560	1,219,459	33,308	2,585,327	843,010	184,460	1,027,470	3,612,797	2,739,026
Advertising and promotion	379,775	402,284	-	782,059	5,612	27,878	33,490	815,549	320,636
Office	401,969	229,101	5,103	636,173	252,814	214,368	467,182	1,103,355	717,736
Information technology	304,045	16,969	-	321,014	108,396	24,711	133,107	454,121	308,756
Travel	17,061	469,106	-	486,167	47,689	16,749	64,438	550,605	27,332
Conferences and meetings	19,433	6,139	-	25,572	132,439	8,347	140,786	166,358	10,747
Interest	4,939	1,347	462,657	468,943	1,041	1,215	2,256	471,199	593,995
Depreciation and amortization	150,286	52,700	340,481	543,467	50,002	11,521	61,523	604,990	477,680
Insurance	1,090,590	5,707	-	1,096,297	149,926	-	149,926	1,246,223	1,122,095
Capital projects	1,038,114	-	4,535,488	5,573,602	-	-	-	5,573,602	2,018,591
Maintenance	11,167,992	82,895	-	11,250,887	76,795	11,824	88,619	11,339,506	11,731,290
Artist fees	240,982	1,256,763	-	1,497,745	250	6,275	6,525	1,504,270	1,074,516
Production	1,223,052	1,081,852	-	2,304,904	36,784	291,180	327,964	2,632,868	1,412,513
Grants and other assistance	-	730,059	-	730,059	-	-	-	730,059	763,447
Other	1,025,806	385,835	-	1,411,641	121,878	370,001	491,879	1,903,520	783,909
Contributed utilities	3,468,361	938,623	-	4,406,984	636,262	445,684	1,081,946	5,488,930	4,610,739
Allocations	(867,480)	735,731	-	(131,749)	17,658	114,091	131,749	-	-
Total expenses by function	40,310,613	12,085,353	5,377,037	57,773,003	5,493,839	3,992,668	9,486,507	67,259,510	48,370,446
Less expenses included with revenues on the statement of activities									
Direct Benefits to Donors	-	-	-	-	-	(241,997)	(241,997)	(241,997)	-
Total	\$ 40,310,613	\$ 12,085,353	\$ 5,377,037	\$ 57,773,003	\$ 5,493,839	\$ 3,750,671	\$ 9,244,510	\$ 67,017,513	\$ 48,370,446

See notes to financial statements.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (1,135,194)	\$ 51,369,943
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Comprehensive income related to pension obligation	(617,817)	(2,933,851)
Depreciation and amortization	264,509	237,762
Amortization of bond issuance costs	41,683	42,622
Amortization of bond premium	(327,876)	(291,975)
Gain on extinguishment of debt	-	21,780
Amortization of contract acquisition costs	298,797	197,296
Bad debt expense	21,050	19,964
Loss on uncollectible promises to give	5,842	578,327
Realized and unrealized (gain) loss on investments	7,191,042	(9,510,046)
Change in value of beneficial interests	5,358,084	(7,608,936)
Change in operating assets and liabilities:		
Accounts receivable	(1,159,914)	(1,046,606)
Contributions receivable	(388,356)	(15,344,426)
Prepaid expenses and other assets	(1,132,833)	363,285
Beneficial interest in assets held by foundation	2,471,011	(7,828,438)
Accounts payable and accrued expenses	(1,434,264)	4,459,983
Deferred fees and revenues	2,121,604	(249,889)
Deferred restaurant revenue	4,292,192	(102,134)
Accrued pension benefit obligation	(149,209)	21,264
Net cash provided by operating activities	<u>15,720,351</u>	<u>12,395,925</u>

See notes to financial statements.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from investing activities		
Purchases of property and equipment	\$ (227,754)	\$ (378,759)
Collections of notes receivable	-	1,499
Payments for contract acquisition costs	(4,639,036)	-
Purchases of investments	-	(5,134,372)
Proceeds from sale of investments	-	<u>198,161</u>
Net cash used in investing activities	<u>(4,866,790)</u>	<u>(5,313,471)</u>
Cash flows from financing activities		
Principal payments of capital leases	(81,978)	(69,580)
Debt payments	(852,076)	(22,229,771)
Proceeds from issuance of bonds	-	19,784,668
Endowment fund investment income (loss)	<u>(5,358,084)</u>	<u>7,608,936</u>
Net cash provided by (used in) financing activities	<u>(6,292,138)</u>	<u>5,094,253</u>
Net increase in cash, cash equivalents	4,561,423	12,176,707
Cash, cash equivalents, beginning of year	<u>23,485,647</u>	<u>11,308,940</u>
Cash, cash equivalents, end of year	<u>\$ 28,047,070</u>	<u>\$ 23,485,647</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 753,200</u>	<u>\$ 593,996</u>
Supplemental schedule of noncash investing and financing activities		
Equipment purchased under capital leases	<u>\$ -</u>	<u>\$ 138,683</u>

See notes to financial statements.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS

The Performing Arts Center of Los Angeles County, doing business as “The Music Center” (TMC), is a nonprofit public benefit corporation organized to encourage and foster the presentation of the arts at the Performing Arts Center complex.

The Performing Arts Center complex includes the Dorothy Chandler Pavilion, the Mark Taper Forum, the Ahmanson Theatre, the Walt Disney Concert Hall (WDCH) and the Plaza and is home to the Los Angeles Philharmonic Association, the Center Theatre Group, the Los Angeles Opera Company and the Los Angeles Master Chorale (collectively, the “Resident Companies”). TMC manages the Performing Arts Center complex on behalf of the County of Los Angeles, which owns the facilities, presents performances at the complex consisting mainly of dance ensembles and provides arts education services to school children throughout Los Angeles County. TMC operates under an agreement with the County of Los Angeles to both maintain the facilities and present performances. The agreement expires June 25, 2064. TMC manages Grand Park under an agreement with the County of Los Angeles through June 30, 2031.

TMC also solicits contributions to support its cultural and educational programs, as well as to fund expansion of and improvements to the complex. Several community volunteer groups and the board of directors provide annual financial support.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The accompanying statement of activities and statement of functional expenses include certain prior-year summarized, comparative information in total (but not by net asset class or function). Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with The Music Center’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified to conform to current presentation with no impact on net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

TMC considers all cash and highly liquid instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of noninterest-bearing amounts due for program services provided. TMC determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of current economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2022 and 2021, the allowance for uncollectible accounts was \$40,048 and \$39,097, respectively.

Contributions Receivable

TMC records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. TMC determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible.

Contract Acquisition Costs

Contract acquisition costs represent restaurant leasehold improvement costs incurred under the licensing agreement with Levy Premium Foodservice Limited Partnership to operate and manage TMC catering. The costs will be amortized over the contract term (see Note 7).

Property and Equipment

Under the terms of a sublease agreement with the County of Los Angeles, TMC transfers title of buildings, leasehold improvements, and certain furniture and equipment upon purchase to the County of Los Angeles. TMC expenses these purchases as they are incurred. Property and equipment for which TMC retains title is recorded at cost and depreciated using the straight-line method over the estimated three to ten-year useful lives of the related assets.

Investments

Investments are initially recorded at cost, if purchased, or at fair value at the date of donation if contributed. Subsequent to acquisition, investments are reported at fair value based upon market quotations, or if managed by fund managers, the fair value information provided by them. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividends income, realized and unrealized capital gains and losses, less external investment expenses.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Assets Held by Foundation

Donors have established and funded trusts and endowments that are administered and controlled by organizations other than TMC. Under the terms of these trust/endowment agreements, TMC has the irrevocable right to receive all or a portion of the income earned on the trusts and endowments in perpetuity.

TMC recognizes its beneficial interests and the changes in these trusts and endowments as perpetually restricted net assets based on the fair value of the assets. Distributions of investment income from these trusts and endowments are included in change in value of beneficial interest and investment income appropriations in the accompanying statement of activities and reflected as net assets without donor restrictions, unless their use is restricted by donors to a specified purpose or future period.

Works of Art

In conformity with the practice followed by many cultural institutions, art objects purchased by or donated to TMC are not included in the statement of financial position. TMC's collection consists of art objects that are on exhibition. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed regularly. Purchased collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or in net assets with donor restrictions if restricted by donors.

Deferred Fees and Revenues

Deferred fees and revenues consist of unearned facility fees, box office sales, and other deferred revenue. Revenue is recognized as obligations are satisfied. Included in deferred revenues at June 30, 2022 and 2021, is county funding totaling \$2,171,692 and \$684,009, which is subject to repayment.

Deferred Restaurant Revenues

Deferred restaurant revenues consist of payments received in connection with restaurant improvements under the licensing agreement with Levy Premium Foodservice Limited Partnership to operate and manage TMC catering. Revenue from this contract is recognized ratably over a ten-year period, as defined by the agreement.

Net Asset Classification

To ensure observance of certain constraints and restrictions placed on the use of resources, TMC reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification (Continued)

These net assets are classified based on the existence or absence of donor-imposed restrictions in the statement of activities that reflects the changes in those categories of net assets.

- *Net assets without donor restrictions* are not restricted by donors, or the donor-imposed restrictions have expired.
- *Net assets with donor restrictions* include those assets which have been limited by donors to later periods of time or for specified purposes. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. When a donor restriction is fulfilled, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from net assets with donor restrictions. Contributions received during the year whose restrictions are met in the same year are recorded and classified as net assets without donor restrictions.

Revenue and Revenue Recognition

TMC recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of TMCs revenue is derived from cost-reimbursable federal and county contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when TMC has incurred expenditures in compliance with specific contract or grant provisions.

TMC Arts revenue includes revenue relating to box office sales, service fees and events that is recognized when the related performance or event takes place. Revenue from concessions is recognized at the point of sale.

Service Billings

TMC undertakes specialty maintenance, construction, production and event activities for the Resident Companies, other affiliated entities and the County of Los Angeles. TMC performs the activity and incurs the costs, then receives reimbursement for the costs.

Contributed Utilities

The County of Los Angeles provides gas, water, and power for TMC per the operating agreement. TMC estimates fair value of the revenue and corresponding cost based off usage and rates normally charged to similar customers, as provided by Los Angeles Department of Water and Power.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Facility Fees

TMC, on behalf of Los Angeles County, collects a County Facility Fee charged on ticket sales at each venue within the Performing Arts Center complex pursuant to various arrangements, including the Resident Companies' Subleases. TMC also acts on behalf of the County in disbursing such fees for various improvements to or at those venues. New agreements were entered into in 2006 to continue such arrangements retroactively. TMC defers facility fees at the time of ticket sales and recognizes them as revenue only when the improvement is expensed.

Contributions to Resident Companies

The Blue Ribbon, one of TMC's community volunteer groups, provides annual support to the Resident Companies. The giving amount and distribution to Resident Companies is at the discretion of the board of directors.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs have been allocated among the programs and supporting services benefited based on management's estimates. Expenses allocated include depreciation and amortization, insurance which are allocated based on square footage basis, as well as general office expenses, information technology and other expenses which are allocated based on the basis of estimates of time and effort. Utilities expense is allocated based off the percentage of salary expense from each function.

Income Taxes

TMC is a California nonprofit public benefit corporation and is generally exempt from federal and state income taxes under Internal Revenue Code §501(c)(3) and California Revenue and Taxation Code §23701(d). Accordingly, no provision for income taxes is included in the accompanying financial statements.

TMC recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

U.S. GAAP establishes a three-level valuation hierarchy of valuation techniques that is based on observable and unobservable inputs. Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The first two inputs that may be used to measure fair value are considered observable and the last unobservable and include the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

At June 30, 2022, TMC has financial assets that consist of investments in equity, bonds and fixed income securities, which are measured at fair value using quoted prices for identical assets in an active market. The basis of fair value for TMC's investments and investments held for capital improvement project differs depending on the investment type. For certain investments, market value is based on quoted market prices. These are classified within Level 1 of the valuation hierarchy. Investments using the net asset value (NAV) per share as a practical expedient to estimate fair value are not classified in the fair value hierarchy.

During the years ended June 30, 2022 and 2021, there were no changes to TMC's valuation techniques that had, or are expected to have, a material impact on the financial statements.

Measure of Operations

The surplus or (deficit) of total revenue and support over total expenses, presented as change in net assets resulting from operating revenues and expenses on the statement of activities, includes all unrestricted operating and capital revenues and expenses that are an integral part of TMC's programs and supporting activities, including unrestricted public support and net assets released from donor restrictions to support operating and capital improvement activities.

The measure of operations also includes distributions from the endowment and investments made in accordance with TMC's spending policies. The measure of operations excludes nonoperating contributions, loss on uncollectible promises to give, net of discounts, loss on event cancellations, investment returns which exceed or are less than the distributions determined by the spending policy, adjustments for pension obligations, and other non-recurring activities.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principles

During the year ended June 30, 2022, TMC adopted ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosures of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The standard was applied retrospectively. The standard did not have a material impact on the financial statements.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the Statement of Activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Management is in the process of evaluating the impact of this accounting pronouncement.

NOTE 3 – RISKS AND UNCERTAINTIES

Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments that potentially subject TMC to concentrations of credit risk consist primarily of cash and cash equivalents, investments (including the beneficial interest held by MCF) and pledges and receivables. TMC places its cash and cash equivalents with high-credit, quality financial institutions. These account balances usually exceed federally insured limits. To date, TMC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with cash and cash equivalents.

TMC holds significant investments in the form of debt and equity securities with third-party money managers and with MCF. TMC has never sustained a loss on any investment due to nonperformance by these third parties and does not anticipate any nonperformance by these third parties in the future.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – RISKS AND UNCERTAINTIES (Continued)

Concentration of Credit Risk (Continued)

TMC routinely assesses the financial strength of its debtors and believes that the promises to give and receivables credit risk exposure is limited. Financial instruments that potentially subject TMC to concentrations of credit risk consist primarily of receivables. As of June 30, 2022, three donors represented approximately 91% of contributions receivable. As of June 30, 2021, three donors represented approximately 95% of contributions receivable.

NOTE 4 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The Music Center's organizational structure, as reflected on the statement of activities, is comprised of three activities: TMC Operations, TMC Arts, and Supporting Services.

TMC Operations are primarily funded by the County of Los Angeles and secondly by rents collected from the Resident Companies. Los Angeles County provides funding in two equal six-month installments during the fiscal year. Rents from Resident Companies are collected monthly. Due to the timing of the payments, TMC maintains sufficient liquidity to fund Operations.

TMC Arts is funded by tickets sold for its events and by contributions from donors that may contain restrictions. Those restrictions require that resources be used in a certain manner or period. TMC maintains adequate resources to meet those responsibilities to its donors; therefore, certain financial assets may not be available for general expenditure within one year.

Supporting Services are funded by earned income and public support without donor restrictions. As part of its liquidity management, TMC structures its financial assets to be available as general expenditures, liabilities and other obligations become due. TMC invests its cash in overnight money market accounts. From time to time, the Board may designate amounts to TMC's cash reserve for future use. With the Board's approval, amounts from TMC invested cash reserve can be used in the event of an unanticipated liquidity need.

Investments within these financial statements are reported in accordance with TMC's valuation policy as of June 30, 2022.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES (Continued)

The below reflects TMC’s financial assets as of June 30, 2022 and 2021, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year from June 30, 2022 and 2021.

	2022	2021
Cash and cash equivalents	\$ 28,047,070	\$ 23,485,647
Accounts receivable, net	3,515,207	2,355,293
Contributions receivable due in one year	7,484,809	2,545,087
Financial assets at year-end	<u>\$ 39,047,086</u>	<u>\$ 28,386,027</u>
Less amounts unavailable for general expenditures due to:		
Time or purpose restrictions	(21,005,211)	(14,730,631)
Plus amounts expected to be appropriated from:		
Endowments (5% spending rate)	1,293,500	1,255,480
Investments (appropriation)	976,124	500,043
Financial assets available to meet general expenditures within one year	<u>\$ 20,311,499</u>	<u>\$ 15,410,919</u>

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are estimated to be collected as follows at June 30:

	2022	2021
Within one year	\$ 7,484,809	\$ 2,650,112
In one to five years	32,619,150	21,574,150
Over five years	250,000	16,500,000
Total gross contributions receivable	40,353,959	40,724,262
Less allowance for uncollectible amounts	(93,226)	(156,835)
Less present value discount	(1,685,350)	(2,353,508)
Total contributions receivable, net	<u>\$ 38,575,383</u>	<u>\$ 38,213,919</u>

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – INVESTMENTS

The following table summarize TMC’s investments with MCF, which are valued using the fair value practical expedient of net asset value at June 30,:

	2022	2021
U.S. large cap equities	\$ 14,766,196	\$ 19,170,973
International equities	5,692,432	6,038,020
Emerging market equities	1,800,630	5,755,453
Equity hedge funds	4,251,543	3,401,736
Absolute returns	3,833,992	3,604,222
Highly liquid investments	2,079,025	994,194
Fixed Income	1,544,408	1,772,002
 Total stocks and stock funds	 33,968,226	 40,736,600
 Partnership interest and other funds	 915,792	 1,338,460
 Total	 \$ 34,884,018	 \$ 42,075,060

The following table represents MCF’s financial instruments which is valued using a fair value practical expedient for the year ended June 30, 2022:

	2022			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 33,833,019	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	915,792	1,266	when partnership ceases	n/a
MCF cash	135,207	-		
 Total MCF investments	 \$ 34,884,018	 \$ 1,266		

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – INVESTMENTS (Continued)

The following table represents MCF’s financial instruments which is valued using a fair value practical expedient for the year ended June 30, 2021:

	2021			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 40,520,315	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,338,460	1,407	when partnership ceases	n/a
MCF cash	<u>216,285</u>	<u>-</u>		
Total MCF investments	<u>\$ 42,075,060</u>	<u>\$ 1,407</u>		

NOTE 7 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT

On September 15, 2020, TMC executed an agreement that licensed Levy Premium Foodservice Limited Partnership (Levy) to operate and manage the Performing Arts Center’s restaurants, catering, and other food service operations (the “Agreement”). Under the Agreement, Levy pays TMC monthly license fees based upon a percentage of the gross receipts generated by the Food Service Operations. In addition, Levy shall pay \$7,500,000 to TMC principally to help fund leasehold improvements to the Food Service Operations premises. An additional payment of \$3,500,000 shall be made by Levy on the seventh anniversary of the agreement for foodservice facility operations.

The agreement provides various termination conditions to end the agreement. If Levy were to exercise its termination rights, TMC would be required to repay Levy the unamortized portion of the construction contribution. The agreement stipulates that for such purposes, the construction contribution should be amortized on a straight-line basis over 10 years in the event of default or the term of the agreement when agreement is terminated for any other reason.

Deferred restaurant revenue related to the construction contribution is as follows at June 30:

	<u>2022</u>	<u>2021</u>
Deferred restaurant revenue, current portion	\$ 520,266	\$ -
Deferred restaurant revenue, noncurrent portion	<u>3,771,926</u>	<u>-</u>
Total	<u>\$ 4,292,192</u>	<u>\$ -</u>

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT (Continued)

TMC recognized \$346,844 and \$401,283 in restaurant improvement income for the years ended June 30, 2022 and 2021, respectively. For the year ended June 30, 2021, restaurant improvement income relates primarily to an agreement that expired prior to September 2020.

TMC recognized \$546,255 and \$0 in license fees for food service operations for the years ending June 30, 2022 and 2021, respectively.

Leasehold improvement costs incurred for Food Service Operations premises will be capitalized and reflected as contract acquisition costs. These costs will be amortized ratably over the 15-year life of the agreement.

Net contract acquisition costs are as follows at June 30:

	2022	2021
Contract acquisition costs	\$ 4,639,036	\$ 17,761,302
Accumulated amortization	(298,797)	(17,761,302)
Contract acquisition costs, net	\$ 4,340,239	\$ -

NOTE 8 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of June 30:

	2022	2021
Computer equipment	\$ 1,272,179	\$ 1,261,956
Assets held under lease	643,103	643,103
Furniture, phone, and office equipment	543,889	451,268
Website	307,016	-
Automotive equipment	6,487	6,487
Construction in progress	10,000	192,109
	2,782,674	2,554,923
Accumulated depreciation	(2,103,261)	(1,838,755)
Property and equipment, net	\$ 679,413	\$ 716,168

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – BENEFICIAL INTERESTS IN ASSETS HELD BY FOUNDATION

TMC’s beneficial interests administered and controlled by other organizations are as follows at June 30:

	2022	2021
Split-interest agreements – Harris Trust and Maiorani Trust	\$ 740,856	\$ 863,802
Music Center Foundation	35,920,507	38,268,572
Total	<u>\$ 36,661,363</u>	<u>\$ 39,132,374</u>

The majority of the split interests represent TMC’s 6.25% interest in the Harris Trust, which is invested in marketable investments held by a trustee. The trust fund is allocated at the discretion of the board of directors of the Harris Trust which is expected to be distributed at a rate of 5% of the value per year.

The following table represents MCF’s financial instruments which are valued using a fair value practical expedient for the year ended June 30, 2022, the valuation technique used to measure the fair value of the financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range
Beneficial interests	\$ 36,661,363	Net asset value	Discount rate	1.94%–7.90%

The following table represents MCF’s financial instruments which are valued using a fair value practical expedient for the year ended June 30, 2021, the valuation technique used to measure the fair value of the financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range
Beneficial interests	\$ 39,132,374	Net asset value	Discount rate	1.94%–7.90%

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – DEBT

Bonds Payable

In May 2007, the California Infrastructure and Economic Development Bank issued the California Infrastructure and Economic Development Bank Revenue Bonds (Performing Arts Center of Los Angeles County Series 2007) (the “2007 Bonds”) with a total borrowing of \$27,530,000 on behalf of TMC. The purpose of issuing the Bonds was to finance the Mark Taper Forum capital improvement project.

On September 1, 2020, pursuant to an indenture by the California Infrastructure and Economic Development Bank (the “Issuer”), the 2007 Bonds were refinanced by \$16,545,000 of tax-exempt bonds (the “2020 Bonds”). The 2020 Bonds were issued with fixed interest rates ranging from 4.00% to 5.00%. A premium totaling \$3,356,658 was received, and debt issuance costs of \$538,352 were incurred upon the sale of the bonds.

The Issuer lent the proceeds of the 2020 Bonds to TMC pursuant to a loan agreement between the Issuer and TMC. Such proceeds received by the Music Center were used to (i) refund all of the outstanding 2007 Bonds and (ii) finance the cost of issuance of the 2020 Bonds. The bond premium and issuance costs are being amortized over the life of the bonds using the effective interest method. During the year ended June 30, 2022, TMC’s estimated arbitrage rebate tax liability was deemed zero.

The 2020 Bonds are limited to obligations of the Issuer payable solely from revenues from TMC. The loan payments are general obligations of TMC. No specific property is pledged under the loan agreement. There is no reserve fund and no financial covenant associated with these bonds.

The 2020 Bonds bear a fixed net interest cost of 3.18% with an arbitrage yield of 2.12%. Interest payments are due to the Trustee annually.

Capital Leases

TMC acquired various leases expiring on various dates through 2026.

Loan Payable

In May 2019, TMC entered into a loan agreement with Los Angeles County for \$5,000,000 requiring annual payments of \$400,000 maturing in September 2024.

The interest rate is variable based on the County’s cost of commercial paper, administrative cost of the underwriting commercial bank, and insurance cost. Interest expense during the years ended June 30, 2022 and 2021, was \$39,408 and \$10,106, respectively.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – DEBT (Continued)

Future maturities of debt are as follows:

<u>Years Ending</u>	<u>Bonds Payable</u>	<u>Capital Lease Obligation</u>	<u>Loans Payable</u>	<u>Total</u>
2023	\$ 475,000	\$ 50,725	\$ 400,000	\$ 925,725
2024	500,000	27,677	400,000	3,927,677
2025	525,000	28,989	3,000,000	553,989
2026	550,000	30,367	-	580,367
2027	580,000	-	-	580,000
Thereafter	<u>12,775,000</u>	<u>-</u>	<u>-</u>	<u>12,775,000</u>
 Total	 15,405,000	 137,758	 3,800,000	 19,342,758
 Unamortized bond premium, net	 2,742,387	 -	 -	 2,742,387
 Unamortized bond issuance costs	 <u>(461,080)</u>	 <u>-</u>	 <u>-</u>	 <u>(461,080)</u>
 Total debt, net	 <u>\$ 17,686,307</u>	 <u>\$ 137,758</u>	 <u>\$ 3,800,000</u>	 <u>\$21,624,065</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets were available for the following purposes as of June 30:

	<u>2022</u>	<u>2021</u>
TMC Arts		
Active Arts	\$ 50,000	\$ 48,625
Blue Ribbon	11,785,398	12,987,269
Dance	16,500,251	17,664,235
Education	14,108,395	13,383,833
General	29,639,234	29,379,239
Spotlight	<u>4,097,825</u>	<u>3,356,650</u>
 Total TMC Arts	 76,181,103	 76,819,851
 Restricted - general	 8,535,439	 9,415,439
Capital	5,674,197	2,985,548
Founders	432,300	13,500
Other restricted for the passage of time	<u>7,288,021</u>	<u>8,561,137</u>
 Total net assets with donor restrictions	 <u>\$ 98,111,060</u>	 <u>\$ 97,795,475</u>

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Beneficial interest in perpetual trust consists of the following as of June 30:

	2022	2021
Beneficial interests in perpetual trust at		
Music Center Foundation	\$ 28,423,108	\$ 30,747,705
Other institutions	740,856	863,802
Promises to give to be placed into perpetual trust at the Music Center Foundation	7,497,399	7,520,867
Total	\$ 36,661,363	\$ 39,132,374

Although beneficial interests in perpetual trusts are not subject to UPMIFA, TMC has elected to include a description of the general investment and distribution policies currently being followed by MCF.

Return Objectives and Risk Parameters

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

Spending Policy and How the Investment Objectives Relate to the Spending Policy

MCF has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value (excluding pledges receivable) over the prior twelve quarters through the preceding fiscal year in which the distribution is planned. In establishing this policy, MCF considered the long-term expected return on its endowment and operating expenses.

Accordingly, over the long term, MCF expects the current spending policy to allow its endowment to grow at the rate of inflation. This is consistent with MCF's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts.

MCF considers the following factors in making a determination to appropriate funds for distribution:

1. The duration and preservation of the fund
2. The purposes of MCF and the donor-restricted endowment funds
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 MCF
7. The investment policies of MCF

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – RETIREMENT PLANS

Defined-pension Plan

TMC sponsors a defined-benefit pension plan (the Plan) which was frozen, effective October 1, 2009. Benefits are based on years of service and employees' annual compensation.

The following table set forth the Plan's benefit obligation, fair value of plan assets, funded status, and the accumulated obligation at June 30,:

	<u>2022</u>	<u>2021</u>
Accumulated benefit obligation	\$ 20,841,925	\$ 26,462,028
Projected benefit obligation	\$ 20,841,925	\$ 26,462,028
Fair value of plan assets	<u>18,053,555</u>	<u>22,906,632</u>
Funded status	<u>\$ (2,788,370)</u>	<u>\$ (3,555,396)</u>

Weighted-average assumptions used to determine the benefit obligation and net periodic pension cost as of and for the years ended June 30, were as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	4.90%	2.95%
Rate of compensation increase	2.35%	2.70%
Long-term rate of return on plan assets	6.50%	5.00%

The changes in the balance of the net loss in net assets without donor restrictions that was previously recognized as changes in net assets without donor restrictions arising from the plan but not included in net periodic benefit cost when they arose is as follows for the years ended June 30,:

	<u>2022</u>	<u>2021</u>
Balance, beginning of the year	\$ 6,758,669	\$ 9,692,520
Actual net loss during the year	(466,845)	(2,686,145)
Amortization amount	<u>(150,972)</u>	<u>(247,706)</u>
Balance, end of year	<u>\$ 6,140,852</u>	<u>\$ 6,758,669</u>

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

The following table details the net periodic pension cost, employer contributions and benefits paid for the years ended June 30,:

	2022	2021
Net periodic pension (benefit) cost	\$ (149,209)	\$ 21,264
Benefits and administrative expenses paid	1,215,570	1,075,185

Expected future plan disbursements for benefit payments are as follows for the years ending June 30,:

2023	\$ 1,234,614
2024	1,231,708
2025	1,259,990
2026	1,304,360
2027	1,371,886
2028–2032	7,432,212

\$ 13,834,770

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 346,226	\$ -	\$ -	\$ 346,226
Fixed income	455,563	8,580,829	-	9,036,392
Common stocks	7,574,005	9,677	-	7,583,682
Real estate investment trust	6,615	-	-	6,615
Commodities	1,080,640	-	-	1,080,640
Total	<u>\$ 9,463,049</u>	<u>\$ 8,590,506</u>	<u>\$ -</u>	<u>\$ 18,053,555</u>

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 743,038	\$ -	\$ -	\$ 743,038
Fixed income	591,016	10,642,467	-	11,233,483
Common stocks	9,968,992	13,919	7,538	9,990,449
Real estate investment trust	256,031	-	-	256,031
Commodities	<u>683,631</u>	<u>-</u>	<u>-</u>	<u>683,631</u>
Total	<u>\$ 12,242,708</u>	<u>\$ 10,656,386</u>	<u>\$ 7,538</u>	<u>\$ 22,906,632</u>

Defined-contribution Plan

TMC also sponsors a defined-contribution plan covering eligible employees. Participants can elect to contribute 3% to 25% of their pretax annual compensation, as defined in the Plan, subject to Internal Revenue Service withholding rules. TMC contributes 100% of the first 3% and 50% of the next 2% of the base compensation that a participant contributes to the plan. Employer contributions to the plan amounted to \$376,966 and \$329,567 during the years ended June 30, 2022 and 2021, respectively.

Pension Liability

TMC also participates in several multiemployer pension plans based upon collective bargaining agreements. The 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 TMC received from the plan sponsor, and as required by the PPA, is certified by the plan's actuary.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

Except for American Federation of Musicians and Employers Pension Fund, certified as red zone; all the plans shown below are certified as green zone status for the plan years ended 2022 and 2021. Similarly, none of the plans imposed a surcharge as part of their respective collective bargaining agreements. In addition, TMC would be responsible for any withdrawal liability under the agreements with the unions.

	EIN	Contributions from TMC		Agreement Expiration
		2022	2021	
Pension Fund I.A.T.S.E. Local 33 Trust Fund	95-6377503/001	\$ 348,699	\$ 99,316	07/31/2026
League – ATPAM Pension Fund	13-298856/001	-	6,366	09/01/2024
Fund of the International Union of Operating Engineers and Participating Employers	36-6052390/001	282,193	284,946	10/31/2026
American Federation of Musicians and Employers Pension Fund	51-6120204/001	8,424	320	08/31/2022

NOTE 13 – CAPITAL PROJECTS

The Music Center receives funding from the County of Los Angeles for capital purposes, operations, or capital improvements. For the years ended June 30, 2022, TMC received additional funding from the County of Los Angeles for capital purposes of \$6,000,000.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Music Center is, from time to time, the subject of litigation, claims and assessments arising out of matters occurring in its normal business operations. The Music Center has insurance coverage to provide protection against certain contingencies. In the opinion of management, resolution of these matters will not have a material adverse effect on TMC’s financial position or results of operations.

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

County Audits

The Music Center and County of Los Angeles have, since the early 1960s, entered into various agreements related to the operation of the Performing Arts Center complex. The Music Center is subject to inspection and audit by the County for funds related to TMC operations and, accordingly, the potential exists for adjustments of funding, past and/or future, resulting from such audits. The liability, if any, which may potentially result from these periodic audits cannot be reasonably estimated and TMC therefore has no provision for such within its financial statements.

NOTE 15 – RELATED PARTY TRANSACTIONS

Annual campaign contributions and promises to give received from the board of directors totaled \$1,900,779 and \$1,154,297 for the years ended June 30, 2022 and 2021, respectively. These contributions and promises to give are reported under public support in the statement of activities or deferred revenue in the statement of financial position, depending on the program the contribution relates to.

On September 14, 2020, TMC entered into a master technology services agreement with a resident company. The agreement is subject to automatic one-year renewals unless cancelled 60 days prior to the end of the initial or renewal term. Technology services expense under this agreement amounted to \$197,660 and \$158,129 for the years ended June 30, 2022 and 2021, respectively.

Amounts due from Resident Companies included in accounts receivable totaled \$1,356,806 and \$1,702,517 as of June 30, 2022 and 2021, respectively. Amounts payable to Resident Companies included in accounts payable and accrued expenses totaled \$566,336 and \$579,404 as of June 30, 2022 and 2021, respectively.

NOTE 16 – SUBSEQUENT EVENTS

Management evaluated all activity through October 31, 2022, the date on which the financial statements were issued.

During August 2022, TMC entered into a settlement regarding a wage and hour matter in the amount of \$525,000 for which court approval is expected to be granted in November 2022. TMC included the liability for this settlement as of June 30, 2022 within accounts payable and accrued expenses in the accompanying statements of financial position. The net impact to TMC, after consideration of recoveries from third parties is approximately \$125,000.