

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018**

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

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June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Performing Arts Center of Los Angeles County

Report on the Financial Statements

We have audited the accompanying financial statements of the Performing Arts Center of Los Angeles County, which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Performing Arts Center of Los Angeles County as of June 30, 2019 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.

Emphasis of Matter

As described in Note 2 to the financial statements, The Performing Arts Center of Los Angeles County adopted Accounting Standards Updates 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Performing Arts Center of Los Angeles County's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

October 4, 2019

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,170,193	\$ 9,061,595
Investments	4,044,292	3,993,143
Contributions receivable, current portion, net	1,487,886	5,863,128
Due from Resident Companies	898,658	713,551
Facility fee receivable	274,863	141,573
Notes receivable, current portion	4,284	7,000
Other receivables	1,185,599	882,819
Prepaid expenses and other current assets	1,923,196	728,213
Total current assets	23,988,971	21,391,022
Noncurrent assets		
Investments	5,238,083	5,169,401
Investments held for capital improvement project	20,980,212	20,133,880
Contributions receivable, noncurrent portion, net	14,728,723	14,157,493
Notes receivable, noncurrent portion	76,446	2,800
Contract acquisition costs, net	1,381,072	2,564,848
Property and equipment, net	661,583	700,952
Beneficial interests	31,418,909	30,913,066
Total noncurrent assets	74,485,028	73,642,440
Total assets	\$ 98,473,999	\$ 95,033,462

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

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,459,242	\$ 4,789,127
Accrued expenses	2,563,218	2,206,147
Capital lease obligations, current portion	77,636	84,181
Payable to Resident Companies	639,682	700,950
Deferred facility fee revenues	2,420,337	2,133,723
Deferred restaurant revenue, current portion	612,804	612,804
Other deferred revenue	2,093,204	2,189,746
Bonds payable, current portion	525,000	500,000
Loans payable, current portion	400,000	-
Deposits and advances	1,130,843	362,530
Bonds interest payable	87,890	89,640
Total current liabilities	18,009,856	13,668,848
Noncurrent liabilities		
Capital lease obligations, noncurrent portion	150,641	228,271
Liability for pension benefits	6,061,563	4,958,477
Deferred restaurant revenue, noncurrent portion	102,134	714,938
Loans payable, noncurrent portion	4,600,000	-
Bonds payable, noncurrent portion	20,817,809	21,345,503
Total liabilities	49,742,003	40,916,037
Net assets		
Without donor restrictions		
Undesignated	4,795,856	7,438,405
Accumulated comprehensive loss related to pension obligation	(9,289,796)	(8,280,394)
	(4,493,940)	(841,989)
With donor restrictions	53,225,936	54,959,414
Total net assets	48,731,996	54,117,425
Total liabilities and net assets	\$ 98,473,999	\$ 95,033,462

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENTS OF ACTIVITIES
Year Ended June 30, 2019
(Summarized Information for the Year Ended June 30, 2018)**

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Capital	Total		2019	2018
Revenue and support						
Operating Revenue						
TMC Operations						
Center operations						
Los Angeles County funding	\$ 20,801,000	\$ -	\$ 20,801,000	\$ -	\$ 20,801,000	\$ 19,764,000
Los Angeles County in-kind utilities	5,010,576	-	5,010,576	-	5,010,576	4,872,553
Rents	4,771,894	-	4,771,894	-	4,771,894	4,685,165
Facility fees	3,515,029	-	3,515,029	-	3,515,029	2,307,402
Service billings	4,507,835	-	4,507,835	-	4,507,835	4,735,588
Total center operations	38,606,334	-	38,606,334	-	38,606,334	36,364,708
Park operations						
Los Angeles County funding	5,152,639	-	5,152,639	-	5,152,639	4,825,611
Los Angeles County in-kind utilities	229,503	-	229,503	-	229,503	255,665
Rents	468,797	-	468,797	-	468,797	553,862
Service billings	703,972	-	703,972	-	703,972	795,115
Total park operations	6,554,911	-	6,554,911	-	6,554,911	6,430,253
Founders Rooms operations	893,391	-	893,391	-	893,391	863,208
Total TMC Operations	46,054,636	-	46,054,636	-	46,054,636	43,658,169
TMC Arts						
Presenting	6,126,238	-	6,126,238	-	6,126,238	4,271,991
Education, Active Arts and Spotlight	811,005	-	811,005	-	811,005	735,609
Other income	428,767	-	428,767	-	428,767	827,616
Total TMC Arts	7,366,010	-	7,366,010	-	7,366,010	5,835,216
Capital improvements						
Mark Taper Forum	-	163,000	163,000	-	163,000	969,000
Restaurant improvement	-	612,804	612,804	-	612,804	612,804
Total capital improvements	-	775,804	775,804	-	775,804	1,581,804
Investment income appropriations	1,426,367	27,788	1,454,155	-	1,454,155	1,530,308
Interest income	32,011	46,209	78,220	-	78,220	57,973
Total operating revenue	54,879,024	849,801	55,728,825	-	55,728,825	52,663,470
Public support						
Contributions and net special events	5,270,939	-	5,270,939	8,557,806	13,828,745	12,111,573
Los Angeles County Plaza grant	-	-	-	20,735,739	20,735,739	7,264,261
Net assets released from restrictions	2,954,591	27,846,541	30,801,132	(30,801,132)	-	-
Total public support	8,225,530	27,846,541	36,072,071	(1,507,587)	34,564,484	19,375,834
Total revenue and support	63,104,554	28,696,342	91,800,896	(1,507,587)	90,293,309	72,039,304

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENTS OF ACTIVITIES
Year Ended June 30, 2019
(Summarized Information for the Year Ended June 30, 2018)**

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Capital	Total		2019	2018
(Continued)						
Expenses						
Operating Expenses						
TMC Operations						
Center operations						
Facility operations	\$ 19,340,080	\$ -	\$ 19,340,080	\$ -	\$ 19,340,080	\$ 18,707,253
Stage operations	3,927,530	-	3,927,530	-	3,927,530	4,348,667
Theater operations	6,171,753	-	6,171,753	-	6,171,753	5,184,706
Other center operations	1,839,024	-	1,839,024	-	1,839,024	1,239,496
In-kind utilities	5,010,577	-	5,010,577	-	5,010,577	4,872,553
Total center operations	36,288,964	-	36,288,964	-	36,288,964	34,352,675
Park operations						
Operations	2,856,794	-	2,856,794	-	2,856,794	3,075,433
Programming	3,088,047	-	3,088,047	-	3,088,047	3,133,556
In-kind utilities	229,503	-	229,503	-	229,503	255,665
Total park operations	6,174,344	-	6,174,344	-	6,174,344	6,464,654
Founders Rooms operations	1,273,081	-	1,273,081	-	1,273,081	1,258,569
Total TMC operations	43,736,389	-	43,736,389	-	43,736,389	42,075,898
TMC Arts						
Presenting	7,832,663	-	7,832,663	-	7,832,663	7,287,738
Education, Active Arts and Spotlight	4,322,921	-	4,322,921	-	4,322,921	4,119,770
Contributions to resident companies	714,518	-	714,518	-	714,518	774,913
Other expenses	460,426	-	460,426	-	460,426	857,333
Total TMC Arts	13,330,528	-	13,330,528	-	13,330,528	13,039,754
Capital improvements						
Plaza renovation	-	28,451,204	28,451,204	-	28,451,204	10,003,622
Mark Taper Forum debt service	-	1,074,731	1,074,731	-	1,074,731	1,092,338
Restaurant contract acquisition amortization	-	1,183,776	1,183,776	-	1,183,776	1,183,776
Annex building renovation	-	696,255	696,255	-	696,255	1,107,822
Total capital improvements	-	31,405,966	31,405,966	-	31,405,966	13,387,558
Total operating expenses	57,066,917	31,405,966	88,472,883	-	88,472,883	68,503,210
Supporting services						
Administration	3,815,131	282,306	4,097,437	-	4,097,437	3,970,220
Development	2,323,136	350,000	2,673,136	-	2,673,136	2,840,064
Total supporting services	6,138,267	632,306	6,770,573	-	6,770,573	6,810,284
Total expenses	63,205,184	32,038,272	95,243,456	-	95,243,456	75,313,494
Change in net assets resulting from operating revenues and expenses	(100,630)	(3,341,930)	(3,442,560)	(1,507,587)	(4,950,147)	(3,274,190)
Non-operating activities						
Loss on uncollectible promises to give, net of discount	-	-	-	(268,839)	(268,839)	-
Investment income, net of appropriations	48,294	801,747	850,041	23,580	873,621	1,652,334
Change in value of beneficial interests	-	-	-	19,368	19,368	814,836
Other comprehensive income (loss) related to pension obligation	(1,009,402)	-	(1,009,402)	-	(1,009,402)	643,555
Fund transfer	(2,540,183)	2,540,183	-	-	-	-
Total non-operating activities	(3,501,291)	3,341,930	(159,361)	(225,891)	(385,252)	3,110,725
Change in net assets	(3,601,921)	-	(3,601,921)	(1,733,478)	(5,335,399)	(163,465)
Net assets (deficit), beginning of year	(841,989)	-	(841,989)	54,959,414	54,117,425	54,280,890
Adjustment upon adoption of ASC 606	(50,030)	-	(50,030)	-	(50,030)	-
Net assets (deficit), end of year	\$ (4,493,940)	\$ -	\$ (4,493,940)	\$ 53,225,936	\$ 48,731,996	\$ 54,117,425

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
(Summarized Information for the Year Ended June 30, 2018)

	Program Services				Supporting Services			Total	
	Operations	Arts	Capital	Total	Management	Development	Total	2019	2018
Expenses									
Salaries and wages	\$ 16,177,192	\$ 5,057,908	\$ -	\$ 21,235,100	\$ 2,445,809	\$ 1,746,208	\$ 4,192,017	\$ 25,427,117	\$ 23,731,505
Pension plan contributions	1,225,226	162,367	-	1,387,593	94,498	73,811	168,309	1,555,902	1,427,825
Other employee benefits	2,144,603	248,438	-	2,393,041	172,741	137,163	309,904	2,702,945	2,690,254
Payroll taxes	1,515,355	268,688	-	1,784,043	129,507	120,020	249,527	2,033,570	1,900,885
Fees for services	981,037	1,181,289	548,809	2,711,135	551,213	219,014	770,227	3,481,362	4,115,296
Advertising and promotion	33,850	748,918	-	782,768	1,785	40,130	41,915	824,683	1,000,957
Office	900,717	(27,428)	3,328	876,617	253,762	293,285	547,047	1,423,664	1,428,876
Information technology	21,184	68,477	-	89,661	9,034	13,939	22,973	112,634	210,997
Occupancy	-	3,814	-	3,814	-	-	-	3,814	103,427
Travel	31,868	164,962	-	196,830	55,810	32,633	88,443	285,273	425,021
Conferences and meetings	16,733	31,712	-	48,445	87,354	10,769	98,123	146,568	102,898
Interest	8,960	191	1,042,037	1,051,188	2,746	101	2,847	1,054,035	1,043,900
Depreciation and amortization	145,221	28,870	1,215,208	1,389,299	39,902	9,708	49,610	1,438,909	1,403,513
Insurance	1,065,634	6,766	-	1,072,400	94,280	-	94,280	1,166,680	1,107,162
Capital projects	1,529,010	-	28,436,813	29,965,823	-	-	-	29,965,823	11,123,925
Maintenance	9,622,014	104,525	-	9,726,539	36,696	5,005	41,701	9,768,240	10,346,778
Artist fees	281,128	2,329,185	-	2,610,313	-	8,476	8,476	2,618,789	2,588,474
Production	1,892,783	1,250,243	-	3,143,026	31,402	394,569	425,971	3,568,997	3,100,441
Grants and other assistance	-	870,719	-	870,719	-	-	-	870,719	902,282
Other	903,794	830,884	159,771	1,894,449	90,898	242,111	333,009	2,227,458	1,948,396
Utilities	5,240,080	-	-	5,240,080	-	-	-	5,240,080	5,128,218
Total expenses by function	43,736,389	13,330,528	31,405,966	88,472,883	4,097,437	3,346,942	7,444,379	95,917,262	75,831,030
Direct Benefits to Donors	-	-	-	-	-	(673,806)	(673,806)	(673,806)	(517,536)
Allocations	-	-	632,306	632,306	(282,306)	(350,000)	(632,306)	-	-
Total	\$ 43,736,389	\$ 13,330,528	\$ 32,038,272	\$ 89,105,189	\$ 3,815,131	\$ 2,323,136	\$ 6,138,267	\$ 95,243,456	\$ 75,313,494

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (5,335,399)	\$ (163,465)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Comprehensive income related to pension obligation	1,009,402	(643,555)
Depreciation and amortization	223,702	188,816
Amortization of bond issuance costs	31,432	30,921
Amortization of contract acquisition costs	1,183,776	1,183,776
Bad debt expense (recovery)	385,017	22,170
Loss from disposal of property and equipment	15,153	5,003
Contributed investment securities	(364,693)	(714,476)
Realized and unrealized gain on investments and securities	(876,478)	(1,988,620)
Adjustment upon adoption of Topic 606	(50,030)	-
Adjustment upon adoption of ASU 2018-08	-	(6,812,909)
Amortization of bond premium	(34,126)	(92,933)
Contributions to beneficial interests		
Distributions	-	6,533,813
Investment income	(19,368)	(814,836)
Change in operating assets and liabilities:		
Contributions receivable, net	3,418,995	(1,321,560)
Due from Resident Companies	(185,107)	457,561
Facility fee receivable, net of deferred facility fee revenue	153,324	(434,432)
Other receivables	(302,780)	(251,616)
Prepaid expenses and other current assets	(1,194,983)	203,098
Beneficial interests	(505,843)	(1,093,933)
Accounts payable	2,670,116	2,874,456
Accrued expenses	357,071	237,256
Payable to Resident Companies	(61,268)	44,458
Other deferred revenue	(709,346)	(44,216)
Deposits and advances	768,313	(43,583)
Bonds interest payable	(1,750)	(9,984)
Liability for pension benefits	93,684	(4,085)
	668,814	(2,652,875)
Net cash provided by (used in) operating activities		

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

(Continued)

	<u>2019</u>	<u>2018</u>
Cash flows from investing activities		
Purchases of investments held for capital improvement project	(1,694,004)	(2,533,256)
Proceeds from sale of investments held for capital improvement project	1,685,952	5,731,091
Dividend and interest income from capital investments	(36,534)	(28,340)
Purchases of property and equipment	(199,486)	(304,878)
Collections of notes receivable	(70,930)	3,321
Purchases of investments	(65,100)	(51,261)
Proceeds from sale of investments	<u>384,693</u>	<u>1,176,165</u>
Net cash provided by investing activities	<u>4,591</u>	<u>3,992,842</u>
Cash flows from financing activities		
Principal payments of capital leases	(84,175)	(67,002)
Proceeds from loans payable	5,000,000	-
Principal payments of bonds payable	(500,000)	(2,480,000)
Endowment receivable collections	-	279,096
Endowment fund investment income	<u>19,368</u>	<u>814,836</u>
Net cash provided by (used in) financing activities	<u>4,435,193</u>	<u>(1,453,070)</u>
Net increase (decrease) in cash and cash equivalents	5,108,598	(113,103)
Cash and cash equivalents, beginning of year	<u>9,061,595</u>	<u>9,174,698</u>
Cash and cash equivalents, end of year	<u>\$ 14,170,193</u>	<u>\$ 9,061,595</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 1,054,035</u>	<u>\$ 1,043,902</u>
Supplemental schedule of noncash investing and financing activities		
Equipment purchased under capital leases	<u>\$ -</u>	<u>\$ 267,613</u>

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – DESCRIPTION OF OPERATIONS

The Performing Arts Center of Los Angeles County 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 of Los Angeles County operates using the fictitious business name, "The Music Center" (TMC).

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, 2021.

The Music Center 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 to The Music Center.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The statement of activities includes certain prior-year summarized, comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with The Music Center's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the prior year's balances in order to conform to the current year's presentation. Such reclassifications or title changes had no effect on change in net assets as previously reported.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 that 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.

Revenue Recognition

Revenue and public support are recorded using the accrual method of accounting. Unconditional promises to give are recorded as contributions in the period such contributions are made based on the present value of the estimated future cash flows. All unconditional gifts, bequests and other public support are included in unrestricted net assets unless they are specifically restricted by the donor's terms of the gift or grant instrument or require the passage of time.

Contributions received during the year whose restrictions are met in the same year are recorded and classified as unrestricted net assets.

The County of Los Angeles provides utilities for The Music Center per the operating agreement. The accompanying statements of activities include the estimated fair value of the cost of these utilities as operating revenue with an equivalent amount reflected as operating expenses.

Cash Equivalents

Cash equivalents include all highly liquid investments with a purchased maturity of three months or less, which are neither held nor restricted by donors for long-term purposes.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Investment income and realized and unrealized gains and losses are recognized as net assets without donor restrictions, unless their use is restricted by donors to a specified purpose or future period. As of June 30, 2019 and 2018, TMC's investments mainly consisted of investments in Music Center Foundation (MCF) funds and money market funds.

Investments Held for Capital Improvement Project

Investments held for capital improvement project include money market funds held by a trustee under the provision of bond indenture agreements to secure payments of principal and interest on the Series 2007 Revenue Bonds (Note 12).

Contributions Receivable

TMC records unconditional contributions receivable, net of allowances for uncollectible amounts, whenever there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. TMC discounts contributions receivable that are expected to be collected in future periods using a risk-adjusted rate of return based on the United States Treasury rate. The provision for allowances for uncollectible amounts is determined based on historical collection rates and specific identification of uncollectible accounts.

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. The aggregate expenditure of such items since the inception of TMC and its predecessors through June 30, 2019 and 2018 was \$113,145,564 and \$83,179,742, respectively, including \$29,965,822 and \$11,136,946 of purchases for the years ended June 30, 2019 and 2018, respectively. 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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests

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; contributed collection items are excluded from the financial statements.

Deferred Revenue

Deferred revenue represents payments received in advance of services rendered and relates principally to facility fee, restaurant construction, advance ticket sales, and education division activities. Revenue is recognized as obligations are satisfied.

Bonds Payable

Bonds payable are reported on a net basis. The basis is the sum of gross bonds payable plus bond premium less bond discount and bond issuance costs. Premiums and discounts are deferred and amortized over the life of the bonds. Issuance costs are deferred and amortized over the life of the bonds using the effective interest rate method.

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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

From time to time, volunteers provide fundraising, educational and clerical support to TMC's various programs. Donated services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such skills. In 2019 and 2018, TMC received no donated services.

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.

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.

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.

As of and for the years ended June 30, 2019 and 2018, TMC had no material uncertain tax positions, tax penalties or interest.

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
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

U.S. GAAP defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. U.S. GAAP does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

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 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

At June 30, 2019, 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. Some investments are based on unobservable inputs such as cash flows, discount rates and alternative investments, which are supported by little or no market activity; these are classified within Level 3 of the fair value hierarchy. Investments utilizing net asset value as a practical expedient to estimate fair value are not classified in the fair value hierarchy.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As of June 30, 2019, TMC had deposits in excess of federally insured limits totaling \$14,231,424. However, 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.

With respect to investments, 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.

With respect to promises to give and receivables, 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. TMC's ten largest donors accounted for 98% and 87% of the contributions receivable at June 30, 2019 and 2018, respectively.

Measure of Operations Without Donor Restrictions

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 investment returns which exceed or are less than the distributions determined by the spending policy, adjustments for pension obligations, loss on uncollectible promises to give net of discounts and other non-recurring activities.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Principles

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in U.S. GAAP and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. TMC adopted Topic 606 using the modified retrospective transition method. The adoption of ASC 606 did not have a material impact on the TMC’s results of operations or financial position. Prior years have not been restated.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. TMC adopted ASU 2016-14 for the year ended June 30, 2019, using a retrospective transition method. As part of the adoption of ASU 2016-14, TMC changed its presentation of net asset classes and expanded the footnote disclosures as required by ASU 2016-14. A summary of the net asset reclassifications required by the adoption of ASU 2016-14 as of June 30, 2018 follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets classifications, as previously presented			
Unrestricted	\$ (841,989)	\$ -	\$ (841,989)
Temporarily restricted	-	24,046,348	24,046,348
Permanently restricted	-	30,913,066	30,913,066
	\$ (841,989)	\$ 54,959,414	\$ 54,117,425

TMC elected not to present a statement of functional expenses by function or liquidity disclosures for the year ended June 30, 2018, as allowed by ASU 2016-14 in the year of adoption.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In January 2016, FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires TMC to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 will be effective for TMC for fiscal years beginning after December 15, 2018. Management is in the process of evaluating the impact of this accounting pronouncement.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. ASU 2016-13 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. ASU 2016-13 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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. Management is in the process of evaluating the impact of this accounting pronouncement.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for fiscal years beginning after December 15, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. Management is in the process of evaluating the impact of this accounting pronouncement.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. ASU 2018-14 will be effective for fiscal years ending after December 15, 2021 with early adoption permitted. Management is in the process of evaluating the impact of this accounting pronouncement.

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

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

Operations is 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 in the same month the rent is related. Due to the timing of the payments, TMC maintains sufficient liquidity to fund Operations.

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 partially funded by earned income, as well as public support without 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 reserves can be used in the event of an unanticipated liquidity need.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES (Continued)

The below reflects TMC’s financial assets as of June 30, 2019, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year from June 30, 2019.

Financial assets that are available within one year to meet cash needs for:

Cash and cash equivalents	\$14,170,193
Accounts and notes receivables	2,363,404
Contributions receivable	1,487,886
Investments	<u>4,044,292</u>
Financial assets at year-end	<u>\$22,065,775</u>

Less amounts unavailable for general expenditures due to:

Time or purpose restrictions	(2,474,695)
Investments subject to board approval	(4,044,292)

Plus amounts expected to be appropriated from:

Endowments (5% spending rate)	1,080,814
Investments (appropriation)	<u>1,378,729</u>

Financial assets available to meet general expenditures within one year	<u>\$18,006,331</u>
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NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

As defined in U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, TMC uses the market approach. Based on this approach, TMC utilizes certain assumptions about the risk or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. Based on the observability of the inputs used in the valuation techniques, TMC is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following tables represent TMC's fair value hierarchy for its financial assets measured at fair value on a recurring basis, except those measured by using net asset value (NAV) per share as a practical expedient as identified in the following, as of June 30, 2019 and 2018:

	2019				
	Level 1	Level 2	Level 3	Measured at NAV	Total
Short-term Investments	\$ -	\$ -	\$ -	\$ 4,044,292	\$ 4,044,292
Long-term Investments	-	-	-	5,238,083	5,238,083
Investments held for capital improvement projects	1,720,063	-	-	19,260,149	20,980,212
Beneficial Interests	-	-	-	31,418,909	31,418,909
Total	<u>\$ 1,720,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,961,433</u>	<u>\$ 61,681,496</u>

	2018				
	Level 1	Level 2	Level 3	Measured at NAV	Total
Short-term Investments	\$ -	\$ -	\$ -	\$ 3,993,143	\$ 3,993,143
Long-term Investments	-	-	-	5,169,401	5,169,401
Investments held for capital improvement projects	1,675,478	-	-	18,458,402	20,133,880
Beneficial Interests	-	-	-	30,913,066	30,913,066
Total	<u>\$ 1,675,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,534,012</u>	<u>\$ 60,209,490</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table represents MCF’s financial instruments which are valued using a fair value practical expedient for the year ended June 30, 2019, 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:

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Beneficial interests	\$ 31,418,909	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, 2018, 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:

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Beneficial interests	\$ 30,913,066	Net asset value	Discount rate	1.94%–7.90%

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Amounts due		
In less than one year	\$ 1,565,643	\$ 5,967,090
In one to five years	9,710,000	8,835,000
In more than five years	<u>8,974,150</u>	<u>9,375,000</u>
Total gross contributions receivable	20,249,793	24,177,090
Less		
Allowance for doubtful amounts	(159,287)	(167,613)
Present value discount	<u>(3,873,897)</u>	<u>(3,988,856)</u>
Total contributions receivable, net	<u>\$16,216,609</u>	<u>\$20,020,621</u>
Less contributions receivable, current portion	<u>(1,487,886)</u>	<u>(5,863,128)</u>
Contributions receivable, noncurrent portion	<u>\$14,728,723</u>	<u>\$14,157,493</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT

Investments consisted of the following as of June 30, 2019 and 2018:

	2019	2018
MCF investments, current	\$ 4,044,292	\$ 3,993,143
MCF investments, noncurrent	5,238,083	5,169,401
Total	<u>\$ 9,282,375</u>	<u>\$ 9,162,544</u>

Investments held for capital improvement project consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Money market funds	\$ 1,720,063	\$ 1,675,478
MCF investments	19,260,149	18,458,402
Total	<u>\$ 20,980,212</u>	<u>\$ 20,133,880</u>

As of June 30, 2019 and 2018, \$1,718,421 and \$1,716,102, respectively, of the investments held for capital improvement project were remaining proceeds from the California Infrastructure and Economic Development Bank Revenue Bond issuance. The balances were held in trust funds in accordance with the provision of the bond agreement (Note 12).

The following tables summarize TMC's investments with MCF as of June 30, 2019 and 2018, which are valued using the fair value practical expedient of net asset value in accordance with US. GAAP:

	2019	2018
Investments	\$ 9,282,375	\$ 9,162,544
Investments held for capital improvements	19,260,149	18,458,402
Total	<u>\$ 28,542,524</u>	<u>\$ 27,620,946</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

**NOTE 6 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT
(Continued)**

	2019			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 27,145,350	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,300,172	183,974	when partnership ceases	n/a
MCF cash	<u>97,002</u>	<u>-</u>		
Total MCF investments	<u>\$ 28,542,524</u>	<u>\$ 183,974</u>		
	2018			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 25,996,386	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,533,356	198,401	when partnership ceases	n/a
MCF cash	<u>91,204</u>	<u>-</u>		
Total MCF investments	<u>\$ 27,620,946</u>	<u>\$ 198,401</u>		

Unfunded commitments are commitments by MCF and are expected to be funded from TMC's investment in the MCF unitized fund. Unfunded commitments are presented in Long-term Investments and Investments Held for Capital Improvement Project in the statement of financial position.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

**NOTE 6 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT
(Continued)**

- (a) The unitized fund is operated by MCF. Under the terms of the agreement with MCF, TMC may withdraw funds upon 90 days' notice or longer, since TMC's withdrawal ability is subject to the redemption notice period and frequencies of the underlying funds in which MCF has invested. Accordingly, a brief summary of the underlying funds is included below.

Approximately 27% and 31% of this fund includes investments in equity funds mirroring S&P 500 sector weighting by June 30, 2019 and 2018, respectively. The fair value of the investments in this category has been estimated using asset values per share of the investments and can be redeemed quarterly with 60 days' notice.

Approximately 18% and 19% of this fund includes investments in international (non-U.S.) equity funds by June 30, 2019 and 2018, respectively. The fair value of the investments in this category has been estimated using net asset values per share of the investments and can be redeemed monthly with a six-day notice period. Restrictions include a provision where the fund may suspend redemptions when it is impossible to determine the net asset value or in other emergency situations.

Approximately 13% and 13% of this fund includes investments in emerging market equity funds by June 30, 2019 and 2018, respectively. The fair value of the investments in this category has been estimated using net asset values per share of the investments and can be redeemed quarterly or on the 1st or 15th of each month with 60-day, 30-day or 1-day notice, respectively. Restrictions include a provision where the fund may suspend redemptions when it is impossible to determine the net asset value or in other emergency situations.

Approximately 15% and 14% of this fund includes investments in long-term and short-term equity-focused hedge funds by June 30, 2019 and 2018, respectively. The fair value of the investments in this category has been estimated using net asset values per share of the investments and can be redeemed annually on January 1 or quarterly/annually depending on share class with a 100-day, 60-day and 45-day notice period, respectively. Restrictions include a provision where 90% of investment can be withdrawn at once with the remainder paid out 30 days after the completion of the fund's annual audit, subject to withdrawal restrictions of underlying managers.

**THE PERFORMING ARTS CENTER OF
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June 30, 2019 and 2018

**NOTE 6 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT
(Continued)**

Approximately 0% and 1% of this fund includes investments in a commodity index fund backed by inflation-indexed bonds and long-term and short-term global natural resources securities, commodities and real assets funds by June 30, 2019 and 2018, respectively. The fair value of the investments in this category has been estimated using net asset values per share of the investments and can be redeemed annually on December 31, with notice by November 1. Certain investments require a 90-day notice period. Restrictions include a provision where 90% of the investment can be withdrawn at once with the remainder paid promptly upon the completion of the fund's annual audit. The fund may elect to suspend distributions when it is impossible to determine net asset value or any other emergency situations.

Approximately 14% and 16% of this fund includes investments in absolute return funds and emerging market long- and short-term funds by June 30, 2019 and 2018, respectively. The fair values of the investments in this category are based on net asset values per share of the investments and can be redeemed upon various frequencies quarterly or annually. Investments representing 87% of the value of the investments in this category are subject to lockups or gates whereby the general partner retains the right to limit withdrawals from all limited partners to 20–25% of aggregated limited partner capital on any one withdrawal date. Further restrictions provide that 90–95% of these same investments can be withdrawn at once with the remainder to be paid out 30–45 days after completion of the fund's annual audit. Funds may elect to suspend distributions when it is impossible to determine net asset values or any other emergency situations.

Approximately 5% and 5% of this fund includes investments in high-quality, fixed income funds by June 30, 2019 and 2018, respectively. The fair values of investments in this category are based on quoted market prices and can be redeemed daily with a one-day notice period, with no withdrawal restriction. However, the fund may elect to distribute securities in lieu of cash.

Approximately 8% and 1% of this fund includes cash and cash equivalents by June 30, 2019 and 2018, respectively.

- (b) This category includes investments in private equity partnerships, venture capital partnerships, real estate partnerships, distressed debt partnerships, energy sector partnerships and oil and gas partnerships. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. All investments in this category cannot be redeemed other than by liquidation of partnerships over the estimated time period of 2019 through 2029. Restrictions are such that investment must be held until the partnership ends or interests are sold on secondary markets.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 – DUE FROM RESIDENT COMPANIES

Due from Resident Companies consisted of the following as of June 30, 2019, and 2018:

	2019	2018
Center Theatre Group	\$ 335,505	\$ 373,343
Los Angeles Master Chorale Association	23,481	17,986
Los Angeles Opera	434,075	299,970
Los Angeles Philharmonic Association	105,597	22,252
Total	\$ 898,658	\$ 713,551

NOTE 8 – FACILITY FEES

The Music Center, on behalf of Los Angeles County, collects a County Facility Fee charged on ticket sales at each of 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 with such arrangement retroactively. TMC defers facility fees at the time of ticket sales and recognizes them as revenue only when the improvement is expensed. At June 30, 2019, the facility fee receivable and deferred revenues were \$274,863 and \$2,420,337, respectively. At June 30, 2018, the facility fee receivable and deferred revenues were \$141,573 and \$2,133,723, respectively.

For the years ended June 30, 2019 and 2018, TMC recognized \$3,678,029 and \$3,276,402, respectively, as "County Facility Fee income." County Facility Fee income for the years ended June 30, 2019 and 2018 has been included within Facility Fees and Mark Taper Forum on the accompanying statement of activities.

NOTE 9 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT

During 2003, TMC executed an agreement that licensed RA Music, Inc. (RA Music) to operate and manage the Performing Arts Center's restaurants, catering and other food service operations (the "Agreement"). Under the Agreement, RA Music pays TMC monthly license fees based upon a percentage of the gross receipts generated by the Food Service Operations. In addition, RA Music paid \$7,330,000 to TMC principally to help fund leasehold improvements to the Food Service Operations premises. The Agreement initially expired in 2010; however, RA Music had the option to extend the Agreement for two consecutive periods of five years each. The extensions required additional payments by RA Music of \$200,000 for the first renewal period and \$1,000,000 for the second renewal period.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT (Continued)

During 2010, RA Music exercised the first option and paid \$200,000 to TMC to extend the length of the Agreement for an additional five years to 2015. During 2013, RA Music exercised the second option to extend the length of the Agreement for a further five years to 2020 and paid \$1,000,000 to TMC before August 15, 2015 (“Renewal Requirement”).

Under the Agreement, TMC is obligated to pay for repairs and replacement of all restaurant and food service equipment except for routine maintenance. As RA Music desires to expend funds on upgrading select equipment (“Improvement Expenditures”), it was agreed, subject to consent provisions by TMC and RA Music that RA Music could expend funds on Improvement Expenditures and that RA Music will receive a credit equal to the amount of the cost of these Improvement Expenditures against the \$1,000,000 Renewal Requirement.

There were no improvements for the years ended June 30, 2019 and 2018.

The Agreement also provides various termination conditions, one of which allows either party to end the Agreement without cause after the twelfth anniversary following the grand opening of WDCH which was on October 24, 2003. If RA Music were to exercise that right, TMC would be required to repay RA Music the unamortized portion of the construction contribution. The agreement stipulates that for such purposes the construction contribution should be amortized using the straight-line method over the 17-year life of the agreement.

TMC initially reflected receipts of \$7,330,000 for the construction contribution as deferred revenue. Beginning in 2004, with the opening of the related food service facilities, these amounts are being recognized ratably as restaurant improvement revenue over the 17-year life of the agreement.

Deferred revenue related to the construction contribution at June 30, 2019 and 2018 was as follows:

	2019	2018
Deferred restaurant revenue, current portion	\$ 612,804	\$ 612,804
Deferred restaurant revenue, noncurrent portion	102,134	714,938
Total	\$ 714,938	\$ 1,327,742

Leasehold improvement costs incurred for Food Service Operations premises have been capitalized. These are reflected as contract acquisition costs in the accompanying statements of financial position and are being amortized ratably over the 17-year life of the agreement beginning in 2004.

TMC recognized \$612,804 as restaurant improvement revenue related to the construction contribution during each of the years ended June 30, 2019 and 2018.

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June 30, 2019 and 2018

NOTE 9 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT (Continued)

Net contract acquisition costs consisted of the following at June 30, 2019 and 2018:

	2019	2018
Contract acquisition costs	\$ 17,761,302	\$ 17,761,302
Accumulated amortization	<u>(16,380,230)</u>	<u>(15,196,454)</u>
Contract acquisition costs, net	<u>\$ 1,381,072</u>	<u>\$ 2,564,848</u>

Amortization expense was \$1,183,776 during each of the years ended June 30, 2019 and 2018.

TMC recognized \$1,336,600 and \$1,187,444 in license fees for food service operations from RA Music for the years ended June 30, 2019 and 2018, respectively. License fees for food service operations were included in Center Operations, Rents on the accompanying statement of activities.

NOTE 10 – PROPERTY AND EQUIPMENT, NET

Equipment consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Computer equipment	\$ 1,009,054	\$ 1,633,643
Assets held under lease	504,264	504,264
Furniture, phone and office equipment	431,605	397,340
Automotive equipment	6,487	6,486
Construction in Progress	<u>65,505</u>	<u>84,016</u>
	2,016,915	2,625,749
Accumulated depreciation	<u>(1,355,332)</u>	<u>(1,924,797)</u>
Property and equipment, net	<u>\$ 661,583</u>	<u>\$ 700,952</u>

**THE PERFORMING ARTS CENTER OF
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June 30, 2019 and 2018

NOTE 11 – BENEFICIAL INTERESTS

As of June 30, 2019 and 2018, TMC’s beneficial interests administered and controlled by other organizations are as follows:

	2019	2018
Split-interest agreements – Harris Trust and Mairangi Trust	\$ 766,148	\$ 764,731
Music Center Foundation	30,652,761	30,148,335
Total	\$ 31,418,909	\$ 30,913,066

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 first 75% of the trust fund is being distributed to the beneficiaries at a rate of 5% per year over the ten-year period starting 2006. The remaining 25% of the trust fund, to be allocated at the discretion of the board of directors of the Harris Trust, is expected to be distributed in the same manner as the first 75% of the fund.

In October 2015, 75% of the current value of the Harris Trust was distributed. Each year thereafter, the trust shall continue to distribute at least 5% of the remaining value per year.

NOTE 12 – 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 “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. The Bonds consist of serial and term bonds that mature from December 1, 2009 to December 1, 2042.

The Bonds were issued at a net premium of \$943,809. Bonds issuance costs incurred amounted to \$834,021, which are amortized over the term of the Bonds. The net Bonds payable at June 30, 2019 reflects the gross Bonds payable plus premium less bond issuance costs. The amortization of the Bonds’ premium costs were \$34,126 and \$92,933 during the years ended June 30, 2019 and 2018, respectively. The amortization of the Bonds’ issuance costs was \$31,432 and \$30,921 during the years ended June 30, 2019 and 2018, respectively.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 12 – DEBT (Continued)

Bonds Payable (Continued)

Interest rates on the Bonds are as follows for the years ended June 30:

<u>Year Ending</u>	<u>Bonds Payable</u>	<u>Interest Rate</u>
2020	\$ 525,000	4.25%
2021	545,000	4.30%
2022	570,000	4.38%
2023	595,000	5.00%
2024	630,000	5.00%
Thereafter	<u>18,455,000</u>	5.00%
Total	<u>\$ 21,320,000</u>	

Interest expense during the years ended June 30, 2019 and 2018 was \$1,029,309 and \$1,032,669, respectively. Interest expense was included in capital improvements expense, Mark Taper Forum on the statement of activities.

The proceeds received from the Bonds issuance were required to be deposited with a trustee in four funds: project fund, debt service reserve fund, capitalized interest fund and costs of issuance fund. The following proceeds from the Bonds issuance were remaining in the debt service reserve fund at June 30:

	<u>2019</u>	<u>2018</u>
Total cash and money market	<u>\$ 1,718,421</u>	<u>\$ 1,716,102</u>

Loans Payable

In May 2019, TMC entered 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. For the year ended June 30, 2019, interest expense was \$12,727.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 12 – DEBT (Continued)

Capital Leases

TMC acquired various leases between fiscal years 2013 to 2018. The leases will expire on various dates through fiscal year 2023.

Future payments of debt are as follows for the years ended June 30:

<u>Years Ending</u>	<u>Bonds Payable</u>	<u>Capital Lease Obligation</u>	<u>Loans Payable</u>	<u>Total</u>
2020	\$ 525,000	\$ 77,636	\$ 400,000	\$ 1,002,636
2021	545,000	69,576	400,000	1,014,576
2022	570,000	56,764	400,000	1,026,764
2023	595,000	24,301	400,000	1,019,301
2024	630,000	-	3,400,000	4,030,000
Thereafter	<u>18,455,000</u>	<u>-</u>	<u>-</u>	<u>18,455,000</u>
Total	21,320,000	228,277	5,000,000	26,548,277
Unamortized bond premium, net	456,929	-	-	456,929
Unamortized bond issuance costs	<u>(434,120)</u>	<u>-</u>	<u>-</u>	<u>(434,120)</u>
Total debt, net	<u>\$21,342,809</u>	<u>\$ 228,277</u>	<u>\$ 5,000,000</u>	<u>\$26,571,086</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets are restricted for the following purposes as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Dance Fund	\$ 16,482,394	\$ 17,288,885
Blue Ribbon	9,231,091	8,940,330
Founders	573,386	558,092
Capital	1,563,810	1,567,142
Education	11,908,540	11,943,580
Spotlight	2,018,089	2,009,011
Active Arts	50,000	50,000
Other restricted for passage of time and use	<u>11,398,626</u>	<u>12,602,374</u>
Total net assets with donor restrictions	<u>\$ 53,225,936</u>	<u>\$ 54,959,414</u>

The beneficial interest in perpetual trust consist of the following:

	<u>2019</u>	<u>2018</u>
Beneficial interests in perpetual trust at		
Music Center Foundation	\$ 23,496,957	\$ 23,123,716
Other institutions	766,148	764,731
Promises to give to be placed into perpetual trust at the Music Center Foundation	<u>7,155,804</u>	<u>7,024,619</u>
Total	<u>\$ 31,418,909</u>	<u>\$ 30,913,066</u>

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.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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

Changes in donor restricted net assets are as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$54,959,414	\$56,910,803
Investment Income	448,541	2,165,969
Contributions	29,424,111	10,783,531
Release due to satisfaction	(30,801,132)	(13,363,656)
Distributions	(536,159)	(1,535,137)
Write-off of pledges	<u>(268,839)</u>	<u>(2,096)</u>
Balance, end of year	<u>\$53,225,936</u>	<u>\$54,959,414</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 14 – RETIREMENT PLANS

Defined-pension Plan

The Music Center sponsors a defined-benefit pension plan (the “Plan”). Effective 2009, the board of directors decided to freeze the Plan. Benefits are based on years of service and employees’ annual compensation.

The following sets forth the components of net periodic benefit cost and the obligations and funded status of the Plan. Valuations of assets and liabilities are determined using a measurement date of June 30, 2019.

Net periodic benefit cost (income) consisted of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Service cost	\$ 26,000	\$ 25,925
Interest cost	940,947	915,798
Expected return on plan assets	(1,067,499)	(1,148,710)
Recognized actuarial loss	194,236	202,902
Net periodic benefit cost (income)	\$ 93,684	\$ (4,085)

Benefit obligation status was as follows as of June 30, 2019 and 2018:

	2019	2018
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 24,105,738	\$ 25,305,100
Service cost	26,000	25,925
Interest cost	940,947	915,798
Assumption change – income	2,226,762	(1,188,825)
Actuarial loss	(281,648)	199,317
Estimated administrative expense	(25,000)	(25,000)
Benefits paid	(1,006,392)	(1,126,577)
Benefit obligation, end of year	\$ 25,986,407	\$ 24,105,738

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Funded status was as follows as of June 30, 2019 and 2018:

	2019	2018
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 19,147,261	\$ 19,698,983
Actual return on plan assets, net of investment expenses	1,836,585	626,410
Actual administrative expenses and benefits paid	<u>(1,059,002)</u>	<u>(1,178,132)</u>
Fair value of plan assets, end of year	<u>\$ 19,924,844</u>	<u>\$ 19,147,261</u>
Funded status	<u>\$ (6,061,563)</u>	<u>\$ (4,958,477)</u>

During the year ended June 30, 2019, TMC also recorded the actuarial income as an adjustment to net assets.

The following represents pension costs directly charged to net assets:

	2019	2018
Accumulated net adjustment to net assets, beginning of year	\$ (8,280,394)	\$ (8,923,949)
Current year change		
Actuarial income (loss) during the year	(1,203,638)	440,653
Amortization	<u>194,236</u>	<u>202,902</u>
	<u>(1,009,402)</u>	<u>643,555</u>
Accumulated net adjustment to net assets, end of year	<u>\$ (9,289,796)</u>	<u>\$ (8,280,394)</u>

Investment Policy

The Music Center has established a Retirement Plan Administration Committee (the “Committee”) to provide oversight to the Plan. To develop the expected long-term rate of return on asset assumptions, TMC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. The Committee determined that the totality of the factors suggest that the Plan can tolerate moderate fluctuations in market value and rates of return in order to achieve long-term objectives.

The Plan assets will be managed to meet or exceed the target rate of return for the Plan. The target is presently at 5.75% which is equal to the Plan’s actuarial assumption. This target rate will be subject to adjustment. To satisfy its long-term rate of return objectives, the Plan assets will be managed on a total return basis recognizing the importance of the balance between risk and reward and the preservation of capital.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Investment Policy (Continued)

The Committee targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term return objectives within risk constraints. The Plan’s strategic allocation is based on the long-term perspective greater than five years. Short-term liquidity requirements should be maintained to the extent necessary to address net cash flows from contributions and Plan expenses and benefit payments.

The Plan’s investment policy includes the following guidelines provided to the investment manager:

- Allowable types of investments
- Asset allocation and rebalancing
- Securities roles and guidelines
- Risk tolerance
- Actuarial policy
- Periodic review and monitoring of investments

Assumptions

The significant actuarial assumptions used in the valuations were (a) life expectancy of participants (the new assumption is the RP-2014 Mortality Table projected generationally using the MP – 2018 projection scale), (b) retirement age assumptions (active participants below age 65 and vested terminated participants will retire at age 65; active participants age 65 and older will retire immediately) and (c) interest discount rate (3.3%).

Weighted-average assumptions used to determine benefit obligations were as follows at June 30:

	2019	2018
Discount rate	3.30%	4.00%
Expected long-term rate of return on assets	5.75%	5.75%

The discount rate is derived annually from the Citigroup Pension Discount Curve using the expected payments from the Plan. The discount rate is estimated based on the yield on a portfolio of high-quality debt instruments. It fluctuates according to the rise and decline in the general level of market interest rates.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition

The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Management fees and operating expenses charged to the Plan for its investments are deducted from income earned on a daily basis and are separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for applicable investments.

Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long-term. The investment goals are (1) to meet or exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk and (2) to preserve the real purchasing power of assets to meet future obligations. Risk targets are established and monitored against acceptable ranges.

All investment policies and procedures are designed to ensure that the Plan's investments are in compliance with the Employment Retirement Income Security Act (ERISA). Guidelines are established defining permitted investments within each asset class.

Following are descriptions of the valuation methodologies used for assets measured at fair value.

<i>Cash equivalents:</i>	Valued at carrying value, which approximates fair value due to the short-term nature of such investments
U.S. government bonds:	Valued at the closing price reported on the active market on which the individual securities are traded
Mutual funds:	Valued at the NAV of shares held by the Plan at year-end
Common stocks:	Valued at the closing price reported on the active market on which the individual stocks are traded
Real estate investment trust:	Valued at the closing price reported on the active market on which the individual shares are traded

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 14 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 457,729	\$ -	\$ -	\$ 457,729
Fixed income	689,720	9,530,459	-	10,220,179
Common stocks	8,643,651	-	1,160	8,644,811
Real estate investment trust	54,018	-	-	54,018
Commodities	<u>546,562</u>	<u>1,545</u>	<u>-</u>	<u>548,107</u>
Total	<u>\$ 10,391,680</u>	<u>\$ 9,532,004</u>	<u>\$ 1,160</u>	<u>\$ 19,924,844</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 582,854	\$ -	\$ -	\$ 582,854
Fixed income	1,105,453	8,557,631	-	9,663,084
Common stocks	8,298,727	-	(2,349)	8,296,378
Real estate investment trust	59,603	-	-	59,603
Commodities	<u>542,954</u>	<u>2,388</u>	<u>-</u>	<u>545,342</u>
Total	<u>\$ 10,589,591</u>	<u>\$ 8,560,019</u>	<u>\$ (2,349)</u>	<u>\$ 19,147,261</u>

**THE PERFORMING ARTS CENTER OF
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NOTE 14 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

Asset allocations by category were as follows at June 30:

	2019	2018
Asset category		
Cash equivalents	2.3%	3.0%
Fixed income	51.3%	50.5%
Equities and hedge funds	43.4%	43.3%
Real estate	0.2%	0.3%
Commodities	2.8%	2.9%
Total	100.0%	100.0%

No contributions were made in fiscal years 2019 and 2018.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Years Ending</u> <u>June 30,</u>	
2020	\$ 1,165,024
2021	1,158,525
2022	1,176,299
2023	1,170,394
2024	1,180,207
2025–2029	6,731,252
Total	\$12,581,701

Defined-contribution Plan

The Music Center 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 \$387,590 and \$386,516 during the years ended June 30, 2019 and 2018, respectively.

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June 30, 2019 and 2018

NOTE 14 – RETIREMENT PLANS (Continued)

Pension Liability

Certain employees of TMC are covered by union-sponsored, collectively bargained, multiemployer pension and welfare plans. The plans are “underwater” as of June 30, 2019; however, the plans have not specified any amounts and TMC is not able to determine its allocated portion of the unfunded vested liability, if any, payable under these plans. According to U.S. GAAP, no liability is required to be recorded by a participant in an underwater multi-employer premium plan, except when a participant withdraws from such plan.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status/Pending/Implemented
		2019	2018	
I.A.T.S.E. Local 33 Trust Fund	95-6377503/001	Green	Green	No
League – ATPAM Pension Fund	13-298856/001	Green	Yellow	N/A
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	36-6052390/001	Green	Green	N/A
American Federation of Musicians and Employers Pension Fund	51-6120204/001	Red	Red	RP Implemented

Pension Fund	TMC Contributions		Surcharge Imposed	Expiration Date of Bargaining Agreement
	2019	2018		
I.A.T.S.E. Local 33 Trust Fund	\$ 466,784	\$ 436,186	N/A	06/31/2020 ^(a)
League – ATPAM Pension Fund	43,462	41,337	N/A	09/01/2019 ^(b)
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	259,944	252,792	N/A	10/31/2021 ^(c)
American Federation of Musicians and Employers Pension Fund	43,250	72,074	No	08/31/2021 ^(d)

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

- (a) The agreement is in full force and effect from January 1, 2018 until and including July 31, 2020 and thereafter from year to year, unless either party gives notice in writing to the other from March 1, 2020 through May 1, 2020, or during a like period in subsequent years, proposing modifications or amendments.
- (b) The agreement terminated on September 1, 2019. Currently under renegotiation.
- (c) The agreement is in effect from November 1, 2016 to and including October 31, 2021 and from year to year thereafter, subject to amendment or modification affecting changes and condition of employment; it being understood that either party wishing to amend or to terminate the Agreement shall give the other party written notice sixty (60) days prior to November 1, 2021, that changes are desired.
- (d) The agreement is in effect during the period commencing September 1, 2016 and continuing through August 31, 2021, and from year to year thereafter unless written notice is given by either party to the other of its desire to terminate or modify the Agreement.

NOTE 15 – PROPERTY MANAGEMENT

The Music Center leases office space to certain sub-licensees on a short-term basis under the operating sublease agreement with the County of Los Angeles. For the years ended June 30, 2019 and 2018, rental income from these leases was \$407,640 and \$407,639, respectively. The rental income from the sublease agreements is included with rents within TMC Operations in the statement of activities.

NOTE 16 – 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, 2019 and 2018, TMC received additional funding from the County of Los Angeles for capital purposes of \$20,735,739 and \$7,264,261, respectively.

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LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 17 – FOUNDERS ROOMS OPERATIONS

Earned income from and expenses related to the operation of the Founders Rooms were \$893,391 and \$1,273,081, respectively, during the year ended June 30, 2019 and are reflected as components of TMC operations in the accompanying statement of activities. In addition, during the year ended June 30, 2019, TMC received a total of \$795,623 in contributions from Founders members, of which \$223,637 was recorded as unrestricted contributions, as restrictions (through the operation of the Founders Rooms and the Performing Arts Center complex) are met in the same year the contributions are received, and \$571,986 was recorded as restricted contributions as this relates to fiscal year 2018 operations support. A total of \$195,000 in contributions received and restricted in prior years was released during the year ended June 30, 2019.

Earned income from and expenses related to the operation of the Founders Rooms were \$863,208 and \$1,258,569, respectively, during the year ended June 30, 2018 and are reflected as components of TMC operations, respectively, in the accompanying statement of activities. In addition, during the year ended June 30, 2018, TMC received a total of \$893,699 in contributions from Founders members, of which \$338,800 was recorded as unrestricted contributions, as restrictions (through the operation of the Founders Rooms and the Performing Arts Center complex) are met in the same year the contributions are received, and \$554,899 was recorded as restricted contributions as this relates to fiscal year 2018 operations support. A total of \$196,000 in contributions received and restricted in prior years and was released during the year ended June 30, 2018.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

At June 12, 2015, TMC entered into an employment agreement with a minimum annual salary of \$600,000 for five years with one-year renewals. This key executive employee is entitled to an annual bonus of up to 20% of base compensation, which is determined in good faith by the Board Chair with Executive Committee agreement. As of June 30, 2019, the minimum future payments under this agreement totaled \$600,000.

In the years ended June 30, 2019 and 2018, three key executive employees participated in the Supplemental Savings Plan, the deferral amount of which is determined in accordance with Internal Revenue Code §457(e)(15). Total deferred compensation related to the Supplemental Savings Plan was \$265,046 and \$210,242 at June 30, 2019 and 2018, respectively, and is reflected as an accrued expense in the accompanying statements of financial position.

**THE PERFORMING ARTS CENTER OF
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NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

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 19 – RELATED PARTY TRANSACTIONS

Annual campaign contributions and promises to give received from the board of directors totaled \$4,931,079 and \$2,930,100 for the years ended June 30, 2019 and 2018, 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.

NOTE 20 – SUBSEQUENT EVENTS

Management evaluated all activity through October 4, 2019 (the date the financial statements were available to be issued) and concluded no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.