THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
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June 30, 2014

SingerLewak LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Performing Arts Center of Los Angeles County
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Performing Arts Center of Los Angeles County (a California nonprofit organization) (the "Performing Arts Center") which comprise the statement of financial position as of June 30, 2014, the related statements of activities 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 of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Performing Arts Center of Los Angeles County as of June 30, 2014, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Performing Arts Center's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

SingerLewak LLP

Los Angeles, California
September 30, 2014

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(with Comparative Totals for June 30, 2013)

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	$ 5,952,471	$ 5,338,018
Short-term investments	3,427,397	3,899,211
Current portion of contributions receivable, net	1,421,082	2,088,344
Accounts receivable from Resident Companies	928,789	742,992
Facility fee receivable	115,970	216,159
Current portion of notes receivable	706,000	1,005,500
Other receivables	1,019,466	676,853
Prepaid and other current assets	918,292	683,133
Total current assets	14,489,467	14,650,210
Long-term investments	3,783,920	3,691,327
Investments held for capital improvement project	20,450,682	18,183,240
Contributions receivable, net of current portion	15,864,767	16,012,891
Notes receivable, net of current portion	16,813	319,193
Contract acquisition costs, net of accumulated amortization of $10,612,135 and $9,579,432, respectively	6,431,710	7,265,037
Property and equipment, net of accumulated depreciation of $1,949,924 and $2,418,576, respectively	739,923	827,877
Beneficial interests	29,882,733	26,396,981
Total assets	**$ 91,660,015**	**$ 87,346,756**

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

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(with Comparative Totals for June 30, 2013)

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities		
Accounts payable	$ 2,420,037	$ 2,187,379
Accrued expenses	2,300,688	2,097,472
Current portion of capital lease obligations	188,148	196,726
Payable to Resident Companies	696,093	729,230
Deferred facility fee revenues	1,806,831	1,982,475
Current portion of deferred revenue	1,728,582	1,679,261
Current portion of bond payable	425,000	410,000
Deposits and advances	230,861	289,582
Bond interest payable	104,057	105,424
Total current liabilities	9,900,297	9,677,549
Capital lease obligations, net of current portion	296,487	470,570
Liability for pension benefits	3,074,445	2,901,046
Deferred revenue, net of current portion	2,522,470	2,869,635
Bonds payable, net	25,301,515	25,728,209
Total liabilities	41,095,214	41,647,009
Commitment and contingencies (Note 22)		
Net assets		
Unrestricted	(2,056,085)	(3,018,357)
Temporarily restricted	15,125,820	14,974,212
Permanently restricted	37,495,066	33,743,892
Total net assets	50,564,801	45,699,747
Total liabilities and net assets	**$ 91,660,015**	**$ 87,346,756**

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

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

(with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Earned revenues and public support					
Revenues					
Center operations					
County - operations	$ 15,838,999	$ -	$ -	$ 15,838,999	$ 15,549,754
County - utilities	5,380,914	-	-	5,380,914	5,428,161
Rents	4,501,747	-	-	4,501,747	4,358,010
Facility fees	2,176,913	-	-	2,176,913	2,411,718
Services billing and other income	4,337,258	-	-	4,337,258	4,627,685
Total center operations revenue	32,235,831	-	-	32,235,831	32,375,328
Park operations					
County - operations	4,787,839	-	-	4,787,839	3,752,810
County - utilities	218,763	-	-	218,763	20,182
Rents	173,685	-	-	173,685	76,886
Start up and other billing	485,772	-	-	485,772	913,337
Total park operations revenue	5,666,059	-	-	5,666,059	4,763,215
Education, programming and outreach					
Education	608,405	-	-	608,405	540,561
Presenting	2,741,938	-	-	2,741,938	3,069,321
Marketing	967,676	-	-	967,676	652,637
Founders Rooms operations	928,582	-	-	928,582	889,526
Total education, programming and outreach revenue	5,246,601	-	-	5,246,601	5,152,045
Capital improvements					
Mark Taper Forum	861,000	-	-	861,000	2,167,790
Restaurants	483,228	-	-	483,228	459,912
Other capital improvements	553,889	-	-	553,889	28,569
Total capital improvements revenue	1,898,117	-	-	1,898,117	2,656,271
Other earned revenue					
Change in value of beneficial interests	-	-	2,452,654	2,452,654	944,079
Interest and other investment income	4,019,304	94,592	-	4,113,896	3,165,456
Total other earned revenue	4,019,304	94,592	2,452,654	6,566,550	4,109,535
Total earned revenue	49,065,912	94,592	2,452,654	51,613,158	49,056,394
Public support	6,488,166	3,228,003	1,298,520	11,014,689	10,122,704
Net assets released from restrictions					
Satisfaction of program restrictions	1,942,969	(1,942,969)	-	-	-
Satisfaction of time restrictions	1,228,018	(1,228,018)	-	-	-
Total net assets released from restrictions	3,170,987	(3,170,987)	-	-	-
Total public support after release from restrictions	9,659,153	57,016	1,298,520	11,014,689	10,122,704
Total earned revenue and public support	58,725,065	151,608	3,751,174	62,627,847	59,179,098

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

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

(with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Expenses					
Program expenses					
Center operations					
Facility operations	$ 15,902,226	$ -	$ -	$ 15,902,226	$ 16,067,579
Stage operations	3,840,011	-	-	3,840,011	4,135,346
Theater operations	3,738,973	-	-	3,738,973	3,597,699
Other operating departments	1,288,732	-	-	1,288,732	1,181,074
County in-kind support of utilities	5,380,914	-	-	5,380,914	5,428,161
Total operations expenses	30,150,856	-	-	30,150,856	30,409,859
Park operations and programming					
Operations	2,861,120	-	-	2,861,120	2,316,162
Programming	1,957,006	-	-	1,957,006	346,098
Start up and other expenses	236,753	-	-	236,753	1,758,690
Utilities	218,763	-	-	218,763	20,182
Total park operations and programming expenses	5,273,642	-	-	5,273,642	4,441,132
Education, programming and outreach					
Education	2,328,214	-	-	2,328,214	2,224,691
Presenting	7,455,987	-	-	7,455,987	6,725,481
Resident Companies allocation	761,487	-	-	761,487	792,280
Public information and marketing	1,049,803	-	-	1,049,803	909,143
Founders Rooms operations	1,281,752	-	-	1,281,752	1,261,483
Total education, programming and outreach expenses	12,877,243	-	-	12,877,243	11,913,078
Capital improvements expense					
Mark Taper Forum	1,268,162	-	-	1,268,162	1,283,272
Restaurant construction	516,351	-	-	516,351	504,150
Other capital improvements	165,269	-	-	165,269	(258,505)
Total capital improvements expenses	1,949,782	-	-	1,949,782	1,528,917
Total program expenses	50,251,523	-	-	50,251,523	48,292,986
Administration and development					
Administration	3,815,827	-	-	3,815,827	3,500,733
Development	3,472,501	-	-	3,472,501	3,063,116
Total administration and development expense	7,288,328	-	-	7,288,328	6,563,849
Total expenses	57,539,851	-	-	57,539,851	54,856,835
Change in net assets before comprehensive income (loss)	1,185,214	151,608	3,751,174	5,087,996	4,322,263
Comprehensive income (loss) related to pension obligation	(222,942)	-	-	(222,942)	658,043
Change in net assets after comprehensive income (loss)	962,272	151,608	3,751,174	4,865,054	4,980,306
Net assets, beginning of year	(3,018,357)	14,974,212	33,743,892	45,699,747	40,719,441
Net assets, end of year	**$ (2,056,085)**	**$ 15,125,820**	**$ 37,495,066**	**$ 50,564,801**	**$ 45,699,747**

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

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 4,865,054	$ 4,980,306
Adjustments to reconcile changes in net assets to cash used in operating activities		
Depreciation and amortization	299,108	295,251
Amortization of contract acquisition costs	1,032,703	1,008,300
Bad debt expense	(418,366)	(275,036)
(Gain) Loss from disposal of property and equipment	2,522	(10,679)
Contributed investment securities	(327,642)	(212,024)
Realized and unrealized gain on sale of securities	(2,952,725)	(2,034,862)
Discount/amortization of bond premium	(34,584)	(34,792)
Contributions to permanently restricted fund		
Contributions	(1,298,520)	(198,223)
Investment income	(2,452,654)	(944,079)
Change in operating assets and liabilities		
Contributions receivable, net	833,752	(380,597)
Accounts receivable from Resident Companies	(185,797)	237,678
Facility fee receivable, net of deferred facility fee revenue	(75,455)	(1,477,357)
Other receivables	(342,613)	872,038
Prepaid and other current assets	(235,159)	(59,153)
Beneficial interests	(3,485,752)	(1,639,270)
Accounts payable	232,658	(240,614)
Accrued expenses	203,216	152,920
Payable to Resident Companies	(33,137)	(51,921)
Deferred revenue	(297,844)	397,010
Deposits and advances	(58,721)	91,880
Liability for pension benefits	173,399	(790,598)
Bond interest payable	(1,367)	(1,316)
Net cash used in operating activities	(4,557,924)	(315,138)

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

THE PERFORMING ARTS CENTER OF LOS ANGELES COUNTY

(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
Cash flows from investing activities		
(Increase) decrease in		
Assets held for capital improvement project	$ (329,841)	$ (491,399)
Purchase of property and equipment	(166,723)	(32,751)
Payments for contract acquisition costs	(199,376)	(83,167)
Repayments from notes	1,001,880	1,002,551
Net sale of investments	1,721,987	295,129
Net cash provided by investing activities	2,027,927	690,363
Cash flows from financing activities		
Repayment of capital leases	(196,724)	(197,795)
Repayment of bond payable	(410,000)	(395,000)
Permanently restricted fund donation	1,298,520	198,223
Permanently restricted fund investment income	2,452,654	944,079
Net cash provided by financing activities	3,144,450	549,507
Net increase in cash and cash equivalents	614,453	924,732
Cash and cash equivalents, beginning of year	5,338,018	4,413,286
Cash and cash equivalents, end of year	**$ 5,952,471**	**$ 5,338,018**
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 1,242,447**	**$ 1,288,485**
Supplemental schedule of non-cash investing and financing activities		
Property purchased under capital leases	**$ 14,063**	**$ 685,036**

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

NOTE 1 – DESCRIPTION OF OPERATIONS

The Performing Arts Center of Los Angeles County ("PACLAC" or the "Performing Arts Center") is a nonprofit public benefit corporation organized to encourage and foster the presentation of the arts at the Performing Arts Center complex. The complex includes the Dorothy Chandler Pavilion, the Mark Taper Forum, the Ahmanson Theatre and the Walt Disney Concert Hall ("WDCH") 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"). PACLAC 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. In June 2012, PACLAC entered into a three-year agreement with the County of Los Angeles to both maintain and present performances at Grand Park. In July 2014, this agreement was extended by the parties by two years.

The Performing Arts 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 Performing Arts Center. On December 6, 2014, the complex is celebrating its 50th anniversary and is soliciting contributions for the event.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with PACLAC's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

<u>Classes of Net Assets</u>
PACLAC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets are either not restricted by donors or the donor-imposed restrictions have expired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classes of Net Assets (Continued)

- Temporarily restricted net assets contain donor-imposed restrictions that permit PACLAC to use or expend the assets as specified as the restrictions are satisfied either by the passage of time or by actions of PACLAC.

- Permanently restricted net assets ("endowment funds") contain donor-imposed restrictions that stipulate the resources must be maintained in perpetuity. Income from permanently restricted investments is recorded as unrestricted, except where the instructions of the donor specify otherwise.

Unrestricted Net Asset Deficit

PACLAC had a deficit of $2,056,085 in its unrestricted net assets at June 30, 2014. $5,347,195 pertains to the cumulative loss related to pension obligations, offset by $3,291,110 cumulative surplus from operating and capital activities.

Revenue Recognition

Earned 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 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 initially recorded as temporarily restricted net assets are reclassified to unrestricted net assets when restrictions have been met.

Contributions received during the year whose restrictions are met in the same year are recorded and classified as unrestricted net assets. Contributions that must be maintained in perpetuity as endowments are classified as permanently restricted net assets.

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

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments purchased with a maturity of three months or less.

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 unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period. At June 30, 2014 and 2013, PACLAC'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 Bond (see Note 14).

Contributions Receivable

The Performing Arts Center records 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. The Performing Arts Center 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 bill 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, PACLAC transfers title of buildings, leasehold improvements and certain furniture and equipment upon purchase to the County of Los Angeles. PACLAC expenses these purchases as they are incurred. The aggregate expenditure of such items since the inception of PACLAC and its predecessors through June 30, 2014 and 2013 were $65,901,342 and $64,558,489, respectively, including $1,342,853 and $1,183,508 of purchases for the years ended June 30, 2014 and 2013, respectively. Property for which PACLAC 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.

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 the Performing Arts Center. Under the terms of these trust/endowment agreements, the Performing Arts Center has the irrevocable right to receive all or a portion of the income earned on the trusts and endowments in perpetuity. The Performing Arts Center recognizes its beneficial interests and the changes in these trusts and endowments as permanently restricted net assets based on the fair value of the assets. Distributions of investment income from these trusts and endowments are included in interest and other investment income in the accompanying statement of activities and reflected as unrestricted net assets, unless their use is temporarily or permanently 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 PACLAC are not included in the statement of financial position. PACLAC'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 unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the assets used to purchase the items are restricted by donors; contributed collection items are excluded from the financial statements.

Deferred Revenue

Deferred revenue represents monies 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.

Support to Resident Companies

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

From time to time, volunteers provide fundraising, educational and clerical support to the Performing Arts Center'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 2014 and 2013, the Organization received no donated services.

Services Billing

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

Income Taxes

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

PACLAC has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 740, "Income Taxes" ("ASC 740"), formerly FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109. ASC 740 clarifies the accounting for uncertainty in income taxes. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2014, PACLAC had no material unrecognized/derecognized tax benefits or tax penalties or interest.

The federal income tax returns of PACLAC still open and subject to IRS examination are for the 2011 through 2014 tax years. The state of California income tax returns still open and subject to examination are also for the 2010 through 2014 tax years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The carrying amounts of accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short-term nature of these financial instruments. The fair value of the long-term contributions receivable reflects the present value of payments to be received, discounted at risk-free interest rates for equivalent periods at the time of the contribution plus the risk premium equivalent to 1% of the outstanding pledge amount. The fair value of notes receivable are discounted using the corresponding credit rate and maturity terms. The carrying amounts of capital lease obligations approximate their fair values due to interest rates that approximate current market rates available to similar instruments. The fair value of liability for pension benefits has been estimated using actuarial assumptions related to future benefits to be paid, including the use of discount rates estimated based on yield on a portfolio of high-quality debt instruments with maturities approximating the remaining life of the projected benefit obligations. The fair value of beneficial interests is either determined by quoted market price or by fair value information provided by money managers. The investments' carrying values represent a reasonable estimate of fair values due to their short-term maturity. Investments are reflected at estimated fair value as described below.

The Performing Arts Center applies the provisions of FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" ("ASC 820"), formerly SFAS No. 157, "Fair Value Measurements." ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 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.

ASC 820 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)
At June 30, 2014, PACLAC 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 PACLAC'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 net asset value, 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.

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 PACLAC to concentrations of credit risk consist primarily of cash and cash equivalents, investments (including the beneficial interest held in the MCF) and pledges and receivables. PACLAC places its cash and cash equivalents with high-credit, quality financial institutions. These account balances usually exceed federally insured limits. However, PACLAC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

With respect to investments, PACLAC holds significant investments in the form of debt and equity securities with third-party money managers and with the MCF. PACLAC 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 pledges and receivables, PACLAC routinely assesses the financial strength of its debtors and believes that the pledges and receivables credit risk exposure is limited.

Financial instruments that potentially subject PACLAC to concentrations of credit risk consist primarily of receivables. PACLAC's ten largest donors accounted for 98% and 99% of the contributions receivable at June 30, 2014 and 2013, respectively.

Recently Issued Accounting Pronouncement
In April 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-06, "Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2013-06"). Amendments within this Update specify how not-for-profit entities should recognize and measure services received from personnel of an affiliate. ASU 2013-06 is effective prospectively for fiscal years beginning after June 15, 2014. PACLAC is in the process of assessing the effect that the guidance will have on its financial statements. PACLAC does not believe the guidance will have a material impact on PACLAC's financial statements.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

As defined in ASC 820, 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, PACLAC uses the market approach. Based on this approach, PACLAC 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, PACLAC 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.

In accordance with ASC 820, the following tables represent PACLAC's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30:

	2014			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ 156,105	$ -	$ 3,271,292	$ 3,427,397
Long-term investments	-	-	3,783,920	3,783,920
Investments held for capital improvement project	4,742,853	-	15,707,829	20,450,682
Beneficial interests	-	-	29,882,733	29,882,733
Total	**$ 4,898,958**	**$ -**	**$ 52,645,774**	**$ 57,544,732**

	2013			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ 138,590	$ -	$ 3,760,621	$ 3,899,211
Long-term investments	-	-	3,691,327	3,691,327
Investments held for capital improvement project	4,474,025	-	13,709,215	18,183,240
Beneficial interests	-	-	26,396,981	26,396,981
Total	**$ 4,612,615**	**$ -**	**$ 47,558,144**	**$ 52,170,759**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30:

	2014			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance, June 30, 2013	$ 7,451,948	$ 13,709,215	$ 26,396,981	$ 47,558,144
Contributions	25,000	-	1,033,097	1,058,097
Distributions	(1,436,860)	-	(1,024,391)	(2,461,251)
Total gains or losses, realized or unrealized	1,015,124	1,998,614	3,477,046	6,490,784
Ending balance, June 30, 2014	**$ 7,055,212**	**$ 15,707,829**	**$ 29,882,733**	**$ 52,645,774**

	2013			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance, June 30, 2012	$ 6,830,914	$ 12,395,506	$ 24,757,711	$ 43,984,131
Contributions	77,050	-	695,191	772,241
Distributions	(177,169)	-	(983,555)	(1,160,724)
Total gains or losses, realized or unrealized	721,153	1,313,709	1,927,634	3,962,496
Ending balance, June 30, 2013	**$ 7,451,948**	**$ 13,709,215**	**$ 26,396,981**	**$ 47,558,144**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table represents the MCF's Level 3 financial instruments for the year ended March 31, 2014, 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	$ 29,882,733	Income Approach	Discount rate	1.94%–2.54%

NOTE 4 – NET CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	2014	2013
Amounts due		
In less than one year	$ 1,459,764	$ 2,166,847
In one to five years	3,186,000	3,225,000
In more than five years	18,000,000	18,725,000
Total gross contributions receivable	22,645,764	24,116,847
Less		
Allowance for doubtful amounts	162,606	203,778
Present value discount	5,197,309	5,811,834
Total contributions receivable, net	17,285,849	18,101,235
Less current portion of contributions receivable, net	1,421,082	2,088,344
Contributions receivable, net of current portion	**$ 15,864,767**	**$ 16,012,891**

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT

Investments consisted of the following as of June 30:

	2014	2013
MCF investments	$ 7,055,212	$ 7,451,948
Cash and money market	156,105	138,590
Total	**$ 7,211,317**	**$ 7,590,538**

Investments held for capital improvement project consisted of the following as of June 30:

	2014	2013
Cash and cash equivalents	$ 1,013,078	$ 744,469
Money market funds	3,729,775	3,729,555
MCF investments	15,707,829	13,709,216
Total	**$ 20,450,682**	**$ 18,183,240**

At June 30, 2014 and 2013, $1,711,530 and $1,711,518, 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 (see Note 14).

The following tables summarize PACLAC's MCF investments at June 30, 2014 and 2013, which are valued using the fair value practical expedient of net asset value in accordance with ASC 820.

	2014	2013
Investments	$ 7,055,212	$ 7,451,948
Investments held for capital improvements	15,707,829	13,709,216
Total	**$ 22,763,041**	**$ 21,161,164**

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT (Continued)

	2014			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund [(a)]	$ 20,767,522	$ -	daily to annually	90–120 days
MCF partnership interest and other funds [(b)]	1,799,661	853,994	when partnership ceases	n/a
MCF cash	195,858	-		
Total MCF investments	**$ 22,763,041**	**$ 853,994**		

Unfunded commitments are commitments by the MCF and are expected to be funded from PACLAC'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.

	2013			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund [(a)]	$ 19,272,014	$ -	daily to annually	90–120 days
MCF partnership interest and other funds [(b)]	1,784,994	972,259	when partnership ceases	n/a
MCF cash	104,156	-		
Total MCF investments	**$ 21,161,164**	**$ 972,259**		

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT (Continued)

(a) This is a unitized fund operated by MCF. Under the terms of the agreement with MCF, PACLAC may withdraw funds upon 90 days' notice or longer, since PACLAC'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 23% of this fund includes investments in long-term and short-term equity funds mirroring S&P 500 sector weighting. 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 a redemption fee up to 0.5% with 60 days' notice. Investments are subject to lockups or gates whereby the general partner retains the right to limit withdrawals from all limited partners to 10% of aggregated limited partner capital on any one withdrawal date. Further restrictions provide that 95% of investment can be withdrawn at once with the remainder to be paid out 30 days after completion of the fund's annual audit.

Approximately 16% of this fund includes investments in international (non-U.S.) equity funds. 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 20% of this fund includes investments in emerging market equity funds. 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. 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.

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT (Continued)

Approximately 8% of this fund includes investments in long-term and short-term equity-focused fund of hedge funds. 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 and 60-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.

Approximately 4% 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. 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 17% of this fund includes investments in absolute return funds and emerging market long- and short-term funds. 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 (September 30 and October 31 depending on share class, quarterly, annually, one-third on July 1, 2011, July 1, 2012 and July 1, 2013 with unredeemed amounts locked for three years, one-third on July 1, 2012, then rollover for another three years, at a 0.5% redemption fee). 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 12% of this fund includes investments in high-quality, fixed income funds. 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.

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT (Continued)

(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 2013 through 2023. Restrictions are such that investment must be held until the partnership ends or interests are sold on secondary markets.

NOTE 6 – ACCOUNTS RECEIVABLE FROM RESIDENT COMPANIES

Accounts receivable from Resident Companies consisted of the following at June 30:

	2014	2013
Los Angeles Opera	$ 621,753	$ 291,543
Center Theatre Group	275,095	399,274
Los Angeles Master Chorale Association	10,827	30,993
Los Angeles Philharmonic Association	21,114	21,182
Total	**$ 928,789**	**$ 742,992**

NOTE 7 – OTHER RECEIVABLES

Other receivables consisted of the following at June 30:

	2014	2013
Education Division	$ 135,598	$ 177,150
Founders' members	72,588	67,525
Patina Group	360,629	215,207
Music Center Foundation	33,115	47,068
Los Angeles County	155,603	569
Other	261,933	169,334
Total	**$ 1,019,466**	**$ 676,853**

NOTE 8 – NOTES RECEIVABLE

On September 16, 2009, PACLAC and Los Angeles Opera (a resident company) entered into a Promissory Note agreement (the "Note") whereby PACLAC agreed to lend $3,000,000 to Los Angeles Opera. The Note had a maturity date of August 31, 2012 and bore interest at a per annum rate of 4.7%, payable quarterly, and was collateralized by a pledge receivable of Los Angeles Opera.

On January 19, 2012, PACLAC and Los Angeles Opera entered into an amendment to the Note which extended the maturity date and provides for annual payments of $1,000,000 on January 31, 2013, 2014 and 2015. On January 31, 2014, the Los Angeles Opera made the second scheduled $1,000,000 payment. Interest earned on this note for the years ended June 30, 2014 and 2013 amounted to $74,416 and $121,415, respectively. Due to the uncertainty surrounding the expected maturity date and payment schedule, PACLAC has recorded a reserve of $300,000 against the note.

Notes receivable consisted of the following at June 30:

	2014	2013
Los Angeles Opera	$ 1,000,000	$ 2,000,000
Other	22,813	24,693
Total gross notes receivable	1,022,813	2,024,693
Less allowance for uncollectible amounts	300,000	700,000
Total notes receivable, net	722,813	1,324,693
Less current portion of notes receivable, net	706,000	1,005,500
Notes receivable, net of current portion	**$ 16,813**	**$ 319,193**

NOTE 9 – FACILITY FEES

PACLAC, on behalf of Los Angeles County, collects a County Facility Fee charged on ticket sales at each of the Performing Arts Center venues pursuant to various arrangements, including Resident Companies Subleases. PACLAC 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. PACLAC defers facility fees at the time of ticket sales and recognizes them as revenue only when improvement disbursement has occurred. At June 30, 2014, the County Facility Fee receivable and deferred revenues were $115,970 and $1,806,831, respectively, reflecting Resident Companies' payments of County Facility Fees.

At June 30, 2013, the County Facility Fee receivable and deferred revenues were $216,159 and $1,982,475, respectively. For the years ended June 30, 2014 and 2013, PACLAC recognized $3,102,651 and $4,579,232, respectively, as "County Facility Fee income." County Facility Fee income for the year ended June 30, 2014 has been included within Facility Fees, Mark Taper Forum and Other Capital Improvements on the statement of activities.

NOTE 10 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT

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

During the fiscal year 2010, RA Music, Inc. exercised the first option and paid $200,000 to the Performing Arts Center to extend the length of the agreement for an additional five years to 2015. During fiscal year 2013, RA Music, Inc. exercised the second option to extend the length of the Agreement for a further five years to 2020 and was required to pay PACLAC $1,000,000 on or before August 15, 2014 ("Renewal Requirement"). Under the Agreement, PACLAC is obligated to pay for repairs and replacement of all restaurant and food service equipment except for routine maintenance. As RA Music, Inc. desires to expend funds on upgrading select equipment ("Improvement Expenditures") it was agreed, subject to consent provisions by PACLAC and RA Music, Inc. that RA Music, Inc. could expend funds on Improvement Expenditures and that RA Music, Inc. will receive a credit equal to the amount of the cost of these Improvement Expenditures against the $1,000,000 Renewal Requirement.

NOTE 10 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT (Continued)

During fiscal year 2014, Improvement Expenditures totaled $158,948, and the Renewal Requirement balance due was $757,886. In August 2014, RA Music, Inc. paid PACLAC the balance due under the Renewal Requirement.

The agreement also provides various termination conditions, one of which allows either party to end the agreement without cause after the twelfth year. If RA Music, Inc. were to exercise that right, PACLAC would be required to repay RA Music, Inc. 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.

PACLAC initially reflected receipts of the construction contribution as deferred revenue. Beginning in fiscal year 2004, with the opening of the related food service facilities, these amounts are being recognized ratably as restaurant income over the 17-year life of the agreement.

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

	2014	2013
Deferred revenue, current portion	$ 488,220	$ 465,336
Deferred revenue, long-term portion	2,522,470	2,869,635
Total	**$ 3,010,690**	**$ 3,334,971**

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 fiscal year 2004.

PACLAC recognized approximately $483,228 and $459,912 as restaurant income related to the construction contribution during fiscal years 2014 and 2013, respectively.

Total contract acquisition costs and related amortization were as follows at June 30:

	2014	2013
Contract acquisition costs	$ 17,043,845	$ 16,844,469
Less accumulated amortization	10,612,135	9,579,432
Contract acquisition costs, net	**$ 6,431,710**	**$ 7,265,037**

NOTE 10 – RESTAURANT, FOOD AND BEVERAGE SERVICE AND CATERING AGREEMENT (Continued)

Such amortization expense was approximately $1,032,703 and $1,008,300 during fiscal years 2014 and 2013, respectively.

PACLAC recognized $1,223,766 and $1,244,881 in license fees for food service operations from RA Music, Inc. for the years ended June 30, 2014 and 2013, respectively. License fees for food service operations were recorded under Center Operations, Rents on the statement of activities.

NOTE 11 – NET PROPERTY AND EQUIPMENT

Net property and equipment consisted of the following at June 30:

	2014	2013
Furniture, phone and office equipment	$ 1,425,270	$ 1,901,147
Computer equipment	1,258,091	1,301,120
Leasehold improvements	-	37,700
Automotive equipment	6,486	6,486
	2,689,847	3,246,453
Less accumulated depreciation and amortization	1,949,924	2,418,576
Property and equipment, net	**$ 739,923**	**$ 827,877**

Depreciation expense amounted to $266,218 and $261,939 for the years ended June 30, 2014 and 2013, respectively.

NOTE 12 – BENEFICIAL INTERESTS

All of PACLAC's beneficial interests are administered and controlled by other organizations as follows at June 30:

	2014	2013
Split-interest agreements – Harris Trust and Maiorani Trust	$ 3,704,975	$ 3,496,374
Music Center Foundation	26,177,758	22,900,607
Total	**$ 29,882,733**	**$ 26,396,981**

The majority of the split interests represent PACLAC'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 in the ten-year period starting fiscal year 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.

NOTE 13 – ACCRUED EXPENSES

Accrued expenses consisted of the following at June 30:

	2014	2013
Accrued compensation, vacation and benefit plans	$ 2,108,001	$ 1,962,011
Agency liabilities	50,000	-
Other	142,687	135,461
Total accrued expenses	**$ 2,300,688**	**$ 2,097,472**

NOTE 14 – LONG-TERM DEBTS

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 PACLAC. The purpose of issuing the 2007 Revenue 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, 2014 reflects the gross Bonds payable plus premium less bond issuance costs. The amortization of the Bonds' premium costs were $34,584 and $34,793 during the years ended June 30, 2014 and 2013, respectively. The amortization of the Bonds' issuance costs was $32,890 and $33,312 during the years ended June 30, 2014 and 2013, respectively.

Interest rates on the Bonds are as follows:

Bonds Payable	Interest Rate
$ 1,330,000	4.00%
480,000	4.13%
500,000	4.20%
525,000	4.25%
545,000	4.30%
570,000	4.38%
21,680,000	5.00%
$ 25,630,000	

NOTE 14 – LONG-TERM DEBTS (Continued)

Interest expense during the years ended June 30, 2014 and 2013 was $1,255,518 and $1,271,668, respectively. Interest expense was included in Capital improvements expense, Mark Taper Forum in the statement of activities.

PACLAC is not subject to financial covenants nor was it required to pledge its assets.

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:

	2014	2013
Total cash and money market	**$ 1,711,530**	**$ 1,711,518**

Capital Leases Obligation

Property costs at June 30, 2014 include $981,029 of copier, mailroom and telephone equipment under leases that have been capitalized and expire in fiscal year 2015, 2016, 2017, 2018 and 2019. Accumulated depreciation for such equipment was $532,449 at June 30, 2014.

Future payments of the long-term debts are as follows:

Years Ending June 30,	Capital Lease Obligation	Bonds Payable
2015	$ 188,148	$ 425,000
2016	182,256	445,000
2017	102,464	460,000
2018	8,739	480,000
2019–2023	3,028	2,735,000
2024–2028	-	3,485,000
2029–2033	-	4,470,000
2034–2038	-	5,740,000
2039–2043	-	7,390,000
Total	484,635	25,630,000
Add unamortized bond premium, net	-	688,949
Less unamortized bond issuance costs	-	592,434
Less current maturities	188,148	425,000
Long-term	**$ 296,487**	**$ 25,301,515**

NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	2014	2013
Dance Fund	$ 3,222,437	$ 3,181,046
Active Arts	320,000	380,000
Founders	396,200	540,281
Blue Ribbon	585,582	551,606
Other funds	1,159,345	414,408
For periods after June 30	9,442,256	9,906,871
Total temporarily restricted net assets	**$ 15,125,820**	**$ 14,974,212**

NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of the following:

	2014	2013
Beneficial interests in perpetual trust at		
Music Center Foundation	$ 20,433,400	$ 17,817,229
Other institutions	3,704,975	3,496,374
Pledge receivable held by PACLAC	5,744,357	5,083,378
Investment in transit	-	7,600
Pledges receivable to be placed into perpetual trust at the Music Center Foundation	7,612,334	7,339,311
Total	**$ 37,495,066**	**$ 33,743,892**

PACLAC has been advised that beneficial interests in perpetual trusts are not subject to UPMIFA and are therefore not subject to the disclosure requirements of FSP 117-1. The following, however, is a description of the general investment and distribution policies currently being followed by the MCF.

Return Objectives and Risk Parameters

To satisfy its long-term rate-of objectives, the 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). The 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.

NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy
The 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, the MCF considered the long-term expected return on its endowment and operating expenses. Accordingly, over the long term, the MCF expects the current spending policy to allow its endowment to grow at the rate of inflation. This is consistent with the 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.

The 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 the 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 the MCF
7. The investment policies of the MCF

PACLAC's permanently restricted net assets were available for the following purposes at June 30:

	2014	2013
Education division	$ 10,343,243	$ 9,184,310
Children's festival	7,375,513	5,958,377
Spotlight program	1,315,365	1,154,188
Dance presentations	10,511,166	9,996,487
Other programs	7,949,779	7,450,530
Total permanently restricted net assets	**$ 37,495,066**	**$ 33,743,892**

NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy (Continued)
Changes in permanently restricted net assets for the year ended June 30, 2014 are as follows:

	Permanently Restricted
Balance, beginning of year	$ 33,743,892
Investment income	3,477,046
Contributions	1,298,520
Distributions	(1,024,392)
Balance, end of year	**$ 37,495,066**

NOTE 17 – CHANGES IN UNRESTRICTED NET ASSETS

Changes in unrestricted net assets consisted of the following for the year ended June 30, 2014:

	Total Revenue	Total Expenses	Net
Center/Park operations	$ 37,917,803	$ 37,927,078	$ (9,275)
Presenting/programming	7,194,698	7,194,698	-
Education/Spotlight	4,013,927	4,013,927	-
Founders	1,449,022	1,449,022	-
Resident Company allocations	1,185,748	1,185,748	-
Other	3,052,647	3,544,360	(491,713)
Total operating activities	54,813,845	55,314,833	(500,988)
Mark Taper Forum	875,490	1,268,163	(392,673)
Restaurants	483,228	516,351	(33,123)
Other	2,552,502	440,504	2,111,998
Total capital activities	3,911,220	2,225,018	1,686,202
Net periodic pension plan cost	-	222,942	(222,942)
Grand total	**$ 58,725,065**	**$ 57,762,793**	**$ 962,272**

NOTE 18 – RETIREMENT PLANS

Defined Pension Plan

The Performing Arts Center sponsors a defined benefit pension plan (the "Plan"). Effective on June 30, 2009, the board decided to freeze the defined benefit 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 defined benefit plan. Valuations of assets and liabilities are determined using a measurement date of June 30, 2014.

Net periodic benefit cost consisted of the following for the years ended June 30:

	2014	2013
Service cost	$ 26,150	$ 26,000
Interest cost	877,948	815,484
Expected return on plan assets	(1,052,010)	(1,085,205)
Recognized actuarial loss	98,369	111,166
Net periodic (benefit)	**$ (49,543)**	**(132,555)**

Obligation status was as follows at June 30:

	2014	2013
Change in benefit obligation		
Benefit obligation, beginning of year	$ 19,498,749	$ 20,782,499
Service cost	26,150	26,000
Interest cost	877,948	815,484
Assumption change (gain) loss	1,452,970	(1,777,267)
Actuarial loss	221,284	249,891
Estimated administrative expense	(25,000)	(25,000)
Benefits paid	(619,933)	(581,858)
Benefit obligation, end of year	**$ 21,432,168**	**$ 19,489,749**

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)
Funded status was as follows at June 30:

	2014	2013
Change in plan assets		
Fair value of plan assets, beginning of year	$ 16,597,703	$ 17,090,855
Actual return on plan assets	2,499,934	206,395
Employer contributions	-	-
Actual administrative expenses and benefits paid	(739,914)	(699,547)
Fair value of plan assets, end of year	**$ 18,357,723**	**$ 16,597,703**
Funded status	**$ (3,074,445)**	**$ (2,901,046)**

During the year ended June 30, 2014, PACLAC also recorded the actuarial gain as an adjustment to net assets.

The following represents pension costs directly charged to net assets:

	2014	2013
Accumulated net adjustment to net assets, beginning of year	$ (5,124,253)	$ (5,782,296)
Current year change		
Actuarial gain (loss) during the year	(321,311)	546,877
Amortization of net gain	98,369	111,166
	(222,942)	658,043
Accumulated net adjustment to net assets, end of year	**$ (5,347,195)**	**$ (5,124,253)**

Investment Policy
PACLAC 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, PACLAC 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.

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)
Investment Policy (Continued)
The Plan assets will be managed to meet or exceed the target rate of return for the Plan. The target is presently at 6.5% 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.

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 RP-2000 Healthy Combined Mortality Table was used), (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 (4.1%).

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

	2014	2013
Discount rate	4.10%	4.60%
Expected long-term rate of return on assets	6.50%	6.50%

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Assumptions (Continued)

The discount rate is estimated based on the yield on a portfolio of high-quality debt instruments. It fluctuates according to the general level the interest rate rises or declines. PACLAC re-evaluates the discount rate on an annual basis.

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.

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.

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

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

Cash equivalents:	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 net asset value ("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

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, 2014:

	Assets at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 436,533	$ -	$ -	$ 436,533
Fixed income	9,900,405	-	-	9,900,405
Common stocks	6,528,779	19,710	120	6,548,609
Real estate investment trust	936,653	-	-	936,653
Commodities	535,523	-	-	535,523
Total	**$ 18,337,893**	**$ 19,710**	**$ 120**	**$ 18,357,723**

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2013:

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 291,419	$ -	$ -	$ 291,419
Fixed income	9,528,911	5,257	-	9,534,168
Common stocks	5,232,242	-	-	5,232,242
Real estate investment trust	651,604	-	-	651,604
Commodities	888,270	-	-	888,270
Total	**$16,592,446**	**$ 5,257**	**$ -**	**$16,597,703**

Asset allocations by asset category were as follows at June 30:

	2014	2013
Asset category		
Cash equivalents	2.4%	1.8%
Fixed income	53.9%	57.4%
Common stocks	35.7%	31.5%
Real estate	5.1%	3.9%
Commodities	2.9%	5.4%
Total	**100.0%**	**100.0%**

The Performing Arts Center did not contribute to the defined benefit plan for the fiscal years ended June 30, 2014 and 2013.

NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)
Plan Assets Investment Valuation and Income Recognition (Continued)
Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years Ending June 30,	
2015	$ 794,257
2016	831,078
2017	889,428
2018	969,666
2019	1,034,829
2020–2024	5,438,763
Total	**$ 9,958,021**

Defined Contribution Plan
The Performing Arts Center also sponsors a defined contribution plan covering eligible non-union 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. The Performing Arts Center 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 $394,265 and $382,738 in 2014 and 2013, respectively.

Pension Liability
Certain employees of PACLAC are covered by union-sponsored, collectively bargained, multiemployer pension and welfare plans. The plans are “underwater” as of June 30, 2014; however the plans have not specified any amounts and PACLAC is not able to determine its allocated portion of the unfunded vested liability, if any, under these plans. According to the accounting policies generally accepted in the United States of America, 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.

NOTE 18 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2014	Pension Protection Act Zone Status 2013	FIP/RP Status/Pending/ Implemented
I.A.T.S.E. Local 33 Trust Fund	95-6377503/001	Green	Green	No
League – ATPAM Pension Fund	13-298856/001	Green as of 8/31/2013	Green as of 8/31/2012	No
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	36-6052390/001	Green	Green	No
American Federation of Musicians and Employers Pension Fund	51-6120204/001	Red	Red	RP Implemented

Pension Fund	Contributions of PACLAC 2014	Contributions of PACLAC 2013	Surcharge Imposed	Expiration Date of Bargaining Agreement
I.A.T.S.E. Local 33 Trust Fund	393,350	404,548	No	12/31/2017 [(a)]
League – ATPAM Pension Fund	37,194	39,016	N/A	8/31/2014
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	218,808	225,536	N/A	10/31/2016 [(b)]
American Federation of Musicians and Employers Pension Fund	40,257	37,552	No	12/31/2011 [(c)]

(a) December 31, 2017 and thereafter from year to year, unless either party gives notice in writing to the other during the period August 1, 2017 through October 1, 2017 or during a like period in subsequent years, proposing modifications and amendments.

NOTE 18 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

(b) October 31, 2016 and from year to year thereafter, subject to amendment or modification affecting changes and conditions of employment; it being understood that either party wishing to amend or to terminate the Agreement shall give the other party written notice sixty days prior to November 1, 2016 that changes are desired.

(c) December 31, 2011 and from calendar year to calendar year thereafter unless written notice is given by either party to the other of its desire to terminate or modify the Agreement as provided in 29 USC Section 158(d).

NOTE 19 – PROPERTY MANAGEMENT

PACLAC 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, 2014 and 2013, rental income from these leases was $407,640 and $407,640, respectively. The rental income from the sublease agreements were presented in Center operations, rents.

NOTE 20 – CAPITAL PROJECTS

During the year ended June 30, 2014, PACLAC received $413,030 of additional funding from the County of Los Angeles for capital purposes. During the year ended June 30, 2013, PACLAC received $172,500 in additional funding from the County of Los Angeles for capital purposes. Additional funding received from the County of Los Angeles is reported as Center Operations or Capital Improvements on the statement of activities, or Deferred Revenue on the statement of financial position, depending on timing of the program the funding is related to.

NOTE 21 – FOUNDERS ROOMS OPERATIONS

Earned income from and expenses related to the operation of the Founders Rooms were $928,582 and $1,281,752, respectively, during fiscal year 2014 and are reflected as components of education and outreach revenue and education and outreach expenses, respectively, in the accompanying statement of activities. In addition, during fiscal year 2014, PACLAC received a total of $697,200 in contributions from Founders members, of which $301,000 was recorded as unrestricted contributions, as restrictions (through the operation of the Founders Rooms and the Music Center) are met in the same year the contributions are received, and $396,200 was recorded as restricted contributions as this relates to fiscal year 2015 operations support. A total of $551,607 in contributions received and restricted in fiscal year 2013 was released in fiscal year 2014.

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Employment Agreements
PACLAC has employment agreements with key executives. The minimum payments under these agreements are summarized below:

Fiscal Years Ending June 30,	
2015	$ 979,129
2016	732,278
2017	410,917
Total	**$ 2,122,324**

A key executive employee is entitled to an annual bonus of up to 20% of his or her base compensation, which is subject to the approval by the chairman of the board. Another key executive employee is entitled to an annual bonus of up to 10% of his or her base compensation, which is subject to approval by the president of PACLAC. There are six key executive employees who are participants in the Supplemental Savings Plan, the deferral amount of which is determined in accordance with Section 457(e)(15) code of the Internal Revenue Service. At June 30, 2014, total deferred compensation related to the Supplemental Savings Plan was $332,891 and was reflected as an accrued liability in this financial statement.

Legal Proceedings
The Performing Arts Center is, from time to time, the subject of litigation, claims and assessments arising out of matters occurring in its normal business operations. PACLAC 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 the Performing Arts Center's financial position or results of operations.

NOTE 23 – RELATED PARTY TRANSACTIONS

Contributions and pledges received from the board of directors for the fiscal year 2014 annual campaign totaled $1,936,751. These contributions and pledges 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 24 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 30, 2014, which is the date the financial statements were issued or available to be issued.