

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2017 and 2016**

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

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June 30, 2017 and 2016

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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 (the "Performing Arts Center") which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

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

A handwritten signature in black ink that reads "Singer Lewak LLP". The signature is written in a cursive, flowing style.

September 29, 2017

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,174,698	\$ 8,840,660
Short-term investments	3,701,347	3,245,763
Contributions receivable, current portion	2,575,821	1,238,204
Due from Resident Companies	1,171,112	882,439
Facility fee receivable	229,234	86,354
Notes receivable, current portion	6,000	6,500
Other receivables	631,203	353,510
Prepaid and other current assets	931,311	876,369
Total current assets	18,420,726	15,529,799
Noncurrent assets		
Long-term investments	5,309,587	4,780,362
Investments held for capital improvement project	21,876,793	19,930,131
Contributions receivable, noncurrent portion	16,145,410	15,109,302
Notes receivable, noncurrent portion	7,121	10,843
Contract acquisition costs, net	3,748,624	4,836,792
Property and equipment, net	322,280	516,442
Beneficial interests	29,819,133	26,880,880
Total noncurrent assets	77,228,948	72,064,752
Total assets	\$ 95,649,674	\$ 87,594,551

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, 2017 and 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,914,671	\$ 2,177,989
Accrued expenses	1,968,891	1,624,256
Capital lease obligations, current portion	38,343	131,180
Payable to Resident Companies	656,492	726,430
Deferred facility fee revenues	2,655,816	1,764,824
Deferred restaurant revenue, current portion	612,804	612,804
Other deferred revenue	1,621,158	2,264,809
Bonds payable, current portion	480,000	460,000
Deposits and advances	406,113	297,190
Bonds interest payable	99,624	101,157
Total current liabilities	10,453,912	10,160,639
Noncurrent liabilities		
Capital lease obligations, noncurrent portion	73,498	111,843
Liability for pension benefits	5,606,117	7,488,959
Deferred restaurant revenue, noncurrent portion	1,327,742	1,940,546
Bonds payable, noncurrent portion	23,907,515	24,391,430
Total liabilities	41,368,784	44,093,417
Commitment and contingencies (Note 21)		
Net assets (deficit)		
Unrestricted	(2,629,913)	(6,172,842)
Temporarily restricted	20,278,760	15,438,885
Permanently restricted	36,632,043	34,235,091
Total net assets	54,280,890	43,501,134
Total liabilities and net assets	\$ 95,649,674	\$ 87,594,551

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(with Comparative Totals for the Year Ended June 30, 2016)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Revenues and public support					
Revenues					
Center operations					
County - operations	\$ 18,808,000	\$ -	\$ -	\$ 18,808,000	\$ 17,605,000
County - utilities	4,824,844	-	-	4,824,844	4,646,273
Rents	4,689,335	-	-	4,689,335	4,255,638
Facility fees	1,348,489	-	-	1,348,489	2,243,959
Services billing and other income	5,240,781	-	-	5,240,781	4,481,832
Total center operations revenue	34,911,449	-	-	34,911,449	33,232,702
Park operations and programming					
County - operations	4,970,511	-	-	4,970,511	4,674,115
County - utilities	256,892	-	-	256,892	269,388
Rents	397,466	-	-	397,466	391,087
Start up and other billing	643,517	-	-	643,517	289,326
Total park operations revenue	6,268,386	-	-	6,268,386	5,623,916
Education, programming and outreach					
Education	523,014	-	-	523,014	528,181
Presenting	3,775,458	-	-	3,775,458	2,558,911
Marketing	631,932	-	-	631,932	659,155
Founders Rooms operations	904,316	-	-	904,316	897,536
Total education, programming and outreach revenue	5,834,720	-	-	5,834,720	4,643,783
Capital improvements					
Mark Taper Forum	941,000	-	-	941,000	914,000
Restaurants	612,804	-	-	612,804	612,804
Other capital improvements	2,277	-	-	2,277	2,793
Total capital improvements revenue	1,556,081	-	-	1,556,081	1,529,597
Other revenue					
Change in value of beneficial interests	-	-	1,805,385	1,805,385	(4,114,801)
Interest and other investment income	3,890,214	499,703	-	4,389,917	2,952,458
Total other revenue	3,890,214	499,703	1,805,385	6,195,302	(1,162,343)
Total revenue	52,460,850	499,703	1,805,385	54,765,938	43,867,655
Public support	5,612,060	9,511,751	591,567	15,715,378	9,595,022
Net assets released from restrictions					
Satisfaction of program restrictions	4,011,039	(4,011,039)	-	-	-
Satisfaction of time restrictions	1,160,540	(1,160,540)	-	-	-
Total net assets released from restrictions	5,171,579	(5,171,579)	-	-	-
Total public support after release from restrictions	10,783,639	4,340,172	591,567	15,715,378	9,595,022
Total revenue and public support	63,244,489	4,839,875	2,396,952	70,481,316	53,462,677

(Continued)

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(with Comparative Totals for the Year Ended June 30, 2016)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Expenses					
Program expenses					
Center operations					
Facility operations	\$ 17,461,479	\$ -	\$ -	\$ 17,461,479	\$ 17,410,420
Stage operations	4,751,027	-	-	4,751,027	4,078,906
Theater operations	4,737,290	-	-	4,737,290	4,101,072
Other operating departments	951,834	-	-	951,834	946,322
County in-kind support of utilities	4,824,844	-	-	4,824,844	4,646,273
Total operations expenses	<u>32,726,474</u>	<u>-</u>	<u>-</u>	<u>32,726,474</u>	<u>31,182,993</u>
Park operations and programming					
Operations	2,960,462	-	-	2,960,462	2,782,878
Programming	2,649,614	-	-	2,649,614	2,292,198
Utilities	256,892	-	-	256,892	269,389
Total park operations and programming expenses	<u>5,866,968</u>	<u>-</u>	<u>-</u>	<u>5,866,968</u>	<u>5,344,465</u>
Education, programming and outreach					
Education	1,889,004	-	-	1,889,004	1,807,660
Presenting	6,716,611	-	-	6,716,611	5,729,945
Resident Companies allocation	729,936	-	-	729,936	797,625
Public information and marketing	631,666	-	-	631,666	590,821
Founders Rooms operations	1,272,759	-	-	1,272,759	1,267,621
Total education, programming and outreach expenses	<u>11,239,976</u>	<u>-</u>	<u>-</u>	<u>11,239,976</u>	<u>10,193,672</u>
Capital improvements					
Mark Taper Forum	1,215,427	-	-	1,215,427	1,231,581
Restaurant construction	1,178,896	-	-	1,178,896	1,125,290
Plaza Renovation	2,710,678	-	-	2,710,678	-
Other capital improvements	6,837	-	-	6,837	741,468
Total capital improvements expenses	<u>5,111,838</u>	<u>-</u>	<u>-</u>	<u>5,111,838</u>	<u>3,098,339</u>
Total program expenses	<u>54,945,256</u>	<u>-</u>	<u>-</u>	<u>54,945,256</u>	<u>49,819,469</u>
Administration and development					
Administration	3,890,255	-	-	3,890,255	3,628,115
Development	2,783,254	-	-	2,783,254	2,464,549
Total administration and development expense	<u>6,673,509</u>	<u>-</u>	<u>-</u>	<u>6,673,509</u>	<u>6,092,664</u>
Total expenses	<u>61,618,765</u>	<u>-</u>	<u>-</u>	<u>61,618,765</u>	<u>55,912,133</u>
Change in net assets before other comprehensive income (loss)	1,625,724	4,839,875	2,396,952	8,862,551	(2,449,456)
Other Comprehensive Income (loss) related to pension obligation	1,917,205	-	-	1,917,205	(3,322,678)
Change in net assets after other comprehensive income (loss)	3,542,929	4,839,875	2,396,952	10,779,756	(5,772,134)
Net assets (deficit), beginning of year	(6,172,842)	15,438,885	34,235,091	43,501,134	49,273,268
Net assets (deficit), end of year	\$ (2,629,913)	\$ 20,278,760	\$ 36,632,043	\$ 54,280,890	\$ 43,501,134

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2017
(with Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets after other comprehensive income (loss)	\$ 10,779,756	\$ (5,772,134)
Adjustments to reconcile change in net assets after comprehensive income (loss) to cash provided by (used in) operating activities:		
Comprehensive income (loss) related to pension obligation	(1,917,205)	3,322,678
Depreciation and amortization	289,043	360,358
Amortization of contract acquisition costs	1,178,896	1,125,290
Bad debt recovery/expense	(914)	(401)
Gain from disposal of property and equipment	(750)	(70,241)
Contributed investment securities	(889,703)	(323,156)
Realized and unrealized gain on investments and securities	(3,310,420)	770,939
Discount/amortization of bond premium	(35,433)	(34,903)
Contributions to permanently restricted fund:		
Contributions	(591,567)	(614,833)
Investment income	(1,805,385)	4,114,801
Change in operating assets and liabilities:		
Contributions receivable, net	(2,372,811)	325,976
Due from Resident Companies	(288,673)	(59,313)
Facility fee receivable, net of deferred facility fee revenue	748,112	(292,695)
Other receivables	(277,693)	698,432
Prepaid and other current assets	(54,942)	(298,328)
Beneficial interests	(2,938,253)	3,763,733
Accounts payable	(263,318)	(71,009)
Accrued expenses	344,635	(214,745)
Payable to Resident Companies	(69,938)	(42,718)
Other deferred revenue	(1,256,455)	636,274
Deposits and advances	108,923	91,474
Liability for pension benefits	34,363	(903,999)
Bonds interest payable	(1,533)	(1,483)
Net cash provided by (used in) operating activities	(2,591,265)	6,509,997

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2017
(with Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
(Continued)		
Cash flows from investing activities		
Decrease in assets held for capital improvement project	240,031	751,447
Purchases of property and equipment	(63,363)	(109,394)
Proceeds from sale of property and equipment	750	70,242
Payments for contract acquisition costs	(90,728)	(152,992)
Collections of notes receivable	4,222	4,207
Purchases of investments	(168,441)	(2,227,670)
Proceeds from sales of investments	1,197,062	-
Net cash provided by (used in) investing activities	1,119,533	(1,664,160)
Cash flows from financing activities		
Principal payments of capital leases	(131,182)	(197,323)
Principal payments of bond payable	(460,000)	(445,000)
Permanently restricted fund donation	591,567	614,833
Permanently restricted fund investment income	1,805,385	(4,114,801)
Net cash provided by (used in) financing activities	1,805,770	(4,142,291)
Net increase in cash and cash equivalents	334,038	703,546
Cash and cash equivalents, beginning of year	8,840,660	8,137,114
Cash and cash equivalents, end of year	\$ 9,174,698	\$ 8,840,660
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 1,172,918	\$ 1,195,764
Supplemental schedule of noncash investing and financing activities		
Equipment purchased under capital leases	\$ -	\$ 90,146

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, 2017 and 2016

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 May 2017, the agreement was extended by the parties through June 2018.

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.

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 accompanying statement of activities 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 U.S. GAAP. Accordingly, such information should be read in conjunction with PACLAC’s financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Classes of Net Assets

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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 \$2,629,913 in its unrestricted net assets at June 30, 2017. \$8,923,949 pertains to the cumulative loss related to pension obligations, offset by \$6,294,036 cumulative surplus from operating and capital activities.

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 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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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. As of June 30, 2017 and 2016, 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 Bonds (see Note 13).

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, 2017 and 2016 was \$72,042,796 and \$68,835,881, respectively, including \$ 3,206,915 and \$1,495,898 of purchases for the years ended June 30, 2017 and 2016, respectively. Property and equipment 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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 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.

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 Companies is at the discretion of the board of directors.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 2017 and 2016, PACLAC 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 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, 2017 and 2016, PACLAC had no material unrecognized/derecognized tax benefits or 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, 2017 and 2016

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.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

At June 30, 2017, 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 by 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. As of June 30, 2017, PACLAC had deposits in excess of federally insured limits totaling \$10,758,035. However, PACLAC 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, 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, 2017, and 2016 respectively.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
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June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for fiscal years beginning after December 15, 2018. Management is in the process of evaluating the impact of this accounting pronouncement.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Management is in the process of evaluating the impact of this accounting pronouncement.

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 the Performing Arts Center 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 US GAAP. ASU 2016-01 will be effective for the Performing Arts Center for fiscal years beginning after December 15, 2018. Management is in the process of evaluating the impact of this accounting pronouncement.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. 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 Statements*, which require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 will be effective for fiscal years beginning after December 15, 2020 and the transition method will be a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period. Management is in the process of evaluating the impact of this accounting pronouncement.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities*. Under the new guidance, the existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called donor restriction. The new standard is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. Management is in the process of evaluating the impact of this accounting pronouncement.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Organization on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. 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, 2017 and 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, 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 the Organization beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. Management is currently evaluating the impact of the adoption of this guidance on its accounting pronouncement.

NOTE 3 – 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, 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.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ -	\$ 3,701,347	\$ 3,701,347
Long-term investments	-	-	5,309,587	5,309,587
Investments held for capital improvement project	4,289,617	-	17,587,176	21,876,793
Beneficial interests	-	-	<u>29,819,133</u>	<u>29,819,133</u>
Total	<u>\$ 4,289,617</u>	<u>\$ -</u>	<u>\$ 56,417,243</u>	<u>\$ 60,706,860</u>

	2016			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ -	\$ 3,245,763	\$ 3,245,763
Long-term investments	-	-	4,780,362	4,780,362
Investments held for capital improvement project	4,238,130	-	15,692,001	19,930,131
Beneficial interests	-	-	<u>26,880,880</u>	<u>26,880,880</u>
Total	<u>\$ 4,238,130</u>	<u>\$ -</u>	<u>\$ 50,599,006</u>	<u>\$ 54,837,136</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

	2017			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance	\$ 8,026,125	\$ 15,692,001	\$ 26,880,880	\$ 50,599,006
Contributions	29,524	-	1,217,652	1,247,176
Distributions	(168,441)	(291,519)	(1,124,009)	(1,583,969)
Total gains or losses, realized or unrealized	<u>1,123,726</u>	<u>2,186,694</u>	<u>2,844,610</u>	<u>6,155,030</u>
Ending balance	<u>\$ 9,010,934</u>	<u>\$ 17,587,176</u>	<u>\$ 29,819,133</u>	<u>\$ 56,417,243</u>
	2016			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance	\$ 5,680,493	\$ 16,257,745	\$ 30,644,613	\$ 52,582,851
Contributions	2,550,826	-	351,069	2,901,895
Distributions	-	-	(3,494,503)	(3,494,503)
Total gains or losses, realized or unrealized	<u>(205,194)</u>	<u>(565,744)</u>	<u>(620,299)</u>	<u>(1,391,237)</u>
Ending balance	<u>\$ 8,026,125</u>	<u>\$ 15,692,001</u>	<u>\$ 26,880,880</u>	<u>\$ 50,599,006</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017, 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	\$ 29,819,133	Income Approach	Discount rate	1.94%–2.54%

The following table represents the MCF’s Level 3 financial instruments for the year ended March 31, 2016, 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	\$ 26,880,880	Income Approach	Discount rate	1.94%–2.54%

NOTE 4 – NET CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amounts due		
In less than one year	\$ 2,645,979	\$ 1,274,836
In one to five years	10,400,500	8,840,000
In more than five years	<u>10,100,000</u>	<u>10,825,000</u>
Total gross contributions receivable	23,146,479	20,939,836
Less		
Allowance for doubtful amounts	(150,999)	(155,682)
Present value discount	<u>(4,274,249)</u>	<u>(4,436,648)</u>
Total contributions receivable, net	18,721,231	16,347,506
Less contributions receivable, current portion	<u>(2,575,821)</u>	<u>(1,238,204)</u>
Contributions receivable, noncurrent portion	<u>\$16,145,410</u>	<u>\$15,109,302</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT

Investments consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
MCF investments, current	\$ 3,701,347	\$ 3,245,763
MCF investments, noncurrent	<u>5,309,587</u>	<u>4,780,362</u>
Total	<u>\$ 9,010,934</u>	<u>\$ 8,026,125</u>

Investments held for capital improvement project consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 548,917	\$ 505,779
Money market funds	3,740,700	3,732,351
MCF investments	<u>17,587,176</u>	<u>15,692,001</u>
Total	<u>\$ 21,876,793</u>	<u>\$ 19,930,131</u>

As of June 30, 2017 and 2016, \$1,713,385 and \$1,712,119, 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 13).

The following tables summarize PACLAC's MCF investments as of June 30, 2017 and 2016, which are valued using the fair value practical expedient of net asset value in accordance with US. GAAP.

	<u>2017</u>	<u>2016</u>
Investments	\$ 9,010,934	\$ 8,026,125
Investments held for capital improvements	<u>17,587,176</u>	<u>15,692,001</u>
Total	<u>\$ 26,598,110</u>	<u>\$ 23,718,126</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

	2017			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 24,528,617	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,872,481	494,450	when partnership ceases	n/a
MCF cash	<u>197,012</u>	<u>-</u>		
Total MCF investments	<u>\$ 26,598,110</u>	<u>\$ 494,450</u>		

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.

	2016			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 21,624,321	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,802,713	1,391,403	when partnership ceases	n/a
MCF cash	<u>291,092</u>	<u>-</u>		
Total MCF investments	<u>\$ 23,718,126</u>	<u>\$ 1,391,403</u>		

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

**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 32% and 26% of this fund includes investments in equity funds mirroring S&P 500 sector weighting by June 30, 2017 and 2016, 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 16% of this fund includes investments in international (non-U.S.) equity funds by June 30, 2017 and 2016, 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 12% of this fund includes investments in emerging market equity funds by June 30, 2017 and 2016, 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. 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 14% and 17% of this fund includes investments in long-term and short-term equity-focused hedge funds by June 30, 2017 and 2016, 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 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.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

Approximately 1% and 2% 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, 2017 and 2016, 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 16% and 20% of this fund includes investments in absolute return funds and emerging market long- and short-term funds by June 30, 2017 and 2016, 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 6% of this fund includes investments in high-quality, fixed income funds by June 30, 2017 and 2016, 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.

- (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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 6 – DUE FROM RESIDENT COMPANIES

Due from Resident Companies consisted of the following as of June 30, 2017, and 2016:

	2017	2016
Los Angeles Opera	\$ 609,645	\$ 487,082
Center Theatre Group	527,261	362,777
Los Angeles Master Chorale Association	13,844	13,567
Los Angeles Philharmonic Association	20,362	19,013
Total	\$ 1,171,112	\$ 882,439

NOTE 7 – OTHER RECEIVABLES

Other receivables consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Education Division	\$ 89,036	\$ 47,054
Founders' members	66,301	51,387
Patina Group	170,601	155,303
Music Center Foundation	76,560	21,469
Los Angeles County	82,390	3,596
California Philharmonic Orchestra	23,319	-
LA Times Food Fest	66,525	-
City Gala	15,280	-
Lawyers in Concert	-	14,602
City of Los Angeles	-	10,656
Los Angeles County High School	25,657	-
Other	15,534	49,443
Total	\$ 631,203	\$ 353,510

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 8 – 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 the improvement disbursement has occurred. At June 30, 2017, the facility fee receivable and deferred revenues were \$229,234 and \$2,655,816, respectively. At June 30, 2016, the facility fee receivable and deferred revenues were \$86,354 and \$1,764,824, respectively.

For the years ended June 30, 2017 and 2016, PACLAC recognized \$2,289,489 and \$3,160,752, respectively, as “County Facility Fee income.” County Facility Fee income for the years ended June 30, 2017 and 2016 have been included within Facility Fees, Mark Taper Forum and Other Capital Improvements on the accompanying statement of activities.

NOTE 9 – 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 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 2013, RA Music, Inc. exercised the second option to extend the length of the Agreement for a further five years to 2020 and paid PACLAC \$1,000,000 before August 15, 2015 (“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.

There were no improvements for the years ended June 30, 2017 and 2016.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

The Agreement also provides various termination conditions, one of which allows either party to end the Agreement without cause after the twelfth annual anniversary following the grand opening of the WDCH which was on October 24, 2003. 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 \$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 income over the 17-year life of the agreement.

Deferred revenue related to the construction contribution at June 30, 2017 and 2016 was as follows:

	2017	2016
Restaurant deferred revenue, current portion	\$ 612,804	\$ 612,804
Restaurant deferred revenue, noncurrent portion	1,327,742	1,940,546
Total	<u>\$ 1,940,546</u>	<u>\$ 2,553,350</u>

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.

PACLAC recognized \$612,804 and \$612,804 as restaurant income related to the construction contribution during the years ended June 30, 2017 and 2016, respectively.

Total contract acquisition costs and related amortization were as follows at June 30, 2017 and 2016:

	2017	2016
Contract acquisition costs	\$ 17,761,302	\$ 17,670,574
Less accumulated amortization	(14,012,678)	(12,833,782)
Contract acquisition costs, net	<u>\$ 3,748,624</u>	<u>\$ 4,836,792</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Amortization expense amounted to \$1,178,896 and \$1,125,290 during the years ended June 30, 2017 and 2016, respectively.

PACLAC recognized \$1,350,172 and \$1,285,743 in license fees for food service operations from RA Music, Inc. for the years ended June 30, 2017 and 2016, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture, phone and office equipment	\$ 1,035,198	\$ 1,086,871
Computer equipment	1,456,517	1,392,613
Automotive equipment	6,486	6,486
Assets held under capital lease	<u>259,133</u>	<u>243,020</u>
	2,757,334	2,728,990
Less accumulated depreciation and amortization	<u>(2,435,054)</u>	<u>(2,212,548)</u>
Property and equipment, net	<u>\$ 322,280</u>	<u>\$ 516,442</u>

Depreciation expense amounted to \$257,525 and \$328,368 for the years ended June 30, 2017 and 2016, respectively.

NOTE 11 – BENEFICIAL INTERESTS

As of June 30, 2017 and 2016, of PACLAC's beneficial interests are administered and controlled by other organizations as follows:

	<u>2017</u>	<u>2016</u>
Split-interest agreements – Harris Trust and Maiorani Trust	\$ 776,293	\$ 779,277
Music Center Foundation	<u>29,042,840</u>	<u>26,101,603</u>
Total	<u>\$ 29,819,133</u>	<u>\$ 26,880,880</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 11 – BENEFICIAL INTERESTS (Continued)

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 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 – ACCRUED EXPENSES

As of June 30, 2017 and 2016, accrued expenses consisted of the following:

	2017	2016
Accrued compensation, vacation and benefits	\$ 1,906,626	\$ 1,577,682
Other	62,265	46,574
Total accrued expenses	\$ 1,968,891	\$ 1,624,256

NOTE 13 – LONG-TERM 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 PACLAC. 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, 2017 reflects the gross Bonds payable plus premium less bond issuance costs. The amortization of the Bonds’ premium costs were \$35,433 and \$34,903 during the years ended June 30, 2017 and 2016, respectively. The amortization of the Bonds’ issuance costs was \$31,518 and \$31,993 during the years ended June 30, 2017 and 2016, respectively.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 13 – LONG-TERM 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>
2018	\$ 480,000	4.13%
2019	500,000	4.20%
2020	525,000	4.25%
2021	545,000	4.30%
2022	570,000	4.38%
Thereafter	<u>21,680,000</u>	5.00%
Total	<u>\$ 24,300,000</u>	

Interest expense during the years ended June 30, 2017 and 2016 was \$1,167,719 and \$1,221,302, respectively. Interest expense was included in capital improvements expense, Mark Taper Forum in 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>2017</u>	<u>2016</u>
Total cash and money market	<u>\$ 1,713,386</u>	<u>\$ 1,712,119</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 13 – LONG-TERM DEBT (Continued)

Capital Leases Obligation

The Company acquired various leases from the years 2010 to 2016. The leases will expire on various dates through 2021.

As of June 30, 2017, future payments of the long-term debts are as follows:

<u>Years Ending June 30,</u>	<u>Capital Lease Obligation</u>	<u>Bonds Payable</u>
2018	\$ 38,343	\$ 480,000
2019	33,540	500,000
2020	25,028	525,000
2021	14,930	545,000
2022	-	570,000
Thereafter	<u>-</u>	<u>21,680,000</u>
Total	111,841	24,300,000
Add unamortized bond premium, net	-	583,988
Less unamortized bond issuance costs	-	(496,473)
Less current maturities	<u>(38,343)</u>	<u>(480,000)</u>
Total long-term debt, net of current portion	<u>\$ 73,498</u>	<u>\$ 23,907,515</u>

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dance Fund	\$ 4,776,435	\$ 4,234,577
Education	918,420	32,880
Capital	685,319	266,148
Blue Ribbon	681,193	573,283
Founders	451,011	488,608
Active Arts	141,374	44,500
Other funds	641,385	797,208
For periods after June 30	<u>11,983,623</u>	<u>9,001,681</u>
Total temporarily restricted net assets	<u>\$ 20,278,760</u>	<u>\$ 15,438,885</u>

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NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of the following:

	2017	2016
Beneficial interests in perpetual trust at		
Music Center Foundation	\$ 22,122,112	\$ 20,292,511
Other institutions	776,291	779,276
Pledges receivable to be placed into perpetual trust at		
the Music Center Foundation	6,920,728	5,809,092
Pledge receivable held by PACLAC	6,812,912	7,354,212
Total	<u>\$ 36,632,043</u>	<u>\$ 34,235,091</u>

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 U.S. GAAP. 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.

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 PERFORMING ARTS CENTER OF
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy (Continued)

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:

	2017	2016
Education programs	\$10,589,246	\$ 9,872,051
Blue Ribbon Children's festival	7,875,472	7,286,401
Spotlight program	1,786,184	1,667,765
Dance presentations	8,708,740	9,012,069
Other programs	7,672,401	6,396,805
Total permanently restricted net assets	\$36,632,043	\$ 34,235,091

Changes in permanently restricted net assets for the year ended June 30, 2017 are as follows:

	Permanently Restricted
Balance, beginning of year	\$ 34,235,091
Investment Income	3,028,310
Contributions	1,132,867
Release due to satisfaction	(725,000)
Distributions	(1,039,225)
Balance, end of year	\$ 36,632,043

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 16 – CHANGES IN UNRESTRICTED NET ASSETS

Changes in unrestricted net assets consisted of the following for the year ended June 30, 2017:

	<u>Total Revenue</u>	<u>Total Expenses</u>	<u>Net</u>
Center/Park operations	\$ 41,223,756	\$ 41,227,973	\$ (4,217)
Presenting/programming	6,902,737	6,902,737	-
Education/Spotlight	3,273,735	3,273,735	-
Founders	1,505,238	1,505,238	-
Resident Company allocations	1,069,880	1,069,880	-
Other	<u>2,787,998</u>	<u>2,243,680</u>	<u>544,318</u>
Total operating activities	<u>56,763,344</u>	<u>56,223,243</u>	<u>540,101</u>
Mark Taper Forum	977,328	1,215,427	(238,099)
DCP/Plaza Projects	2,695,204	2,717,507	(22,303)
Annex	6,838	6,838	-
Restaurants	612,804	1,178,896	(566,092)
Other	<u>2,188,971</u>	<u>276,854</u>	<u>1,912,117</u>
Total capital activities	6,481,145	5,395,522	1,085,623
Other comprehensive income	<u>1,917,205</u>	-	<u>1,917,205</u>
Grand total	<u>\$ 65,161,694</u>	<u>\$ 61,618,765</u>	<u>\$ 3,542,929</u>

Undesignated contributions are allocated to each operating activity, with the exception of Center/Park operations, to achieve a breakeven result. Any remaining undesignated contributions are used to offset fundraising and administrative expenses not allocated to specific programmatic activities.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 17 – RETIREMENT PLANS

Defined-pension Plan

The Performing Arts Center sponsors a defined-benefit pension plan (the “Plan”). Effective 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, 2017.

Net periodic benefit cost consisted of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Service cost	\$ 25,850	\$ 26,075
Interest cost	896,407	974,432
Expected return on plan assets	(1,132,557)	(1,055,456)
Recognized actuarial loss	244,663	150,950
Net periodic benefit cost	\$ 34,363	\$ 96,001

Obligation status was as follows as of June 30, 2017 and 2016:

	2017	2016
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 26,865,495	\$ 23,135,983
Service cost	25,850	26,075
Interest cost	896,407	974,432
Assumption change (income) loss	(1,886,824)	3,133,843
Actuarial loss	233,831	371,515
Estimated administrative expense	(25,000)	(25,000)
Benefits paid	(804,659)	(751,353)
Benefit obligation, end of year	\$ 25,305,100	\$ 26,865,495

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Funded status was as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 19,376,536	\$ 18,065,703
Actual return on plan assets	1,166,499	1,119,099
Employer contributions	-	1,000,000
Actual administrative expenses and benefits paid	<u>(844,052)</u>	<u>(808,266)</u>
Fair value of plan assets, end of year	<u>\$ 19,698,983</u>	<u>\$ 19,376,536</u>
Funded status	<u>\$ (5,606,117)</u>	<u>\$ (7,488,959)</u>

During the year ended June 30, 2017, PACLAC also recorded the actuarial income as an adjustment to net assets.

The following represents pension costs directly charged to net assets:

	<u>2017</u>	<u>2016</u>
Accumulated net adjustment to net assets, beginning of year	<u>\$ (10,841,154)</u>	<u>\$ (7,518,476)</u>
Current year change		
Actuarial Income (loss) during the year	1,672,542	(3,473,628)
Amortization	<u>244,663</u>	<u>150,950</u>
	<u>(1,917,205)</u>	<u>(3,322,678)</u>
Accumulated net adjustment to net assets, end of year	<u>\$ (8,923,949)</u>	<u>\$ (10,841,154)</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

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.

The Plan assets will be managed to meet or exceed the target rate of return for the Plan. The target is presently at 6.0% 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

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

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 – 2016 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 (3.7%).

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

	2017	2016
Discount rate	3.70%	3.40%
Expected long-term rate of return on assets	6.00%	6.00%

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.

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.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

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.

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 PERFORMING ARTS CENTER OF
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 17 – 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 507,576	\$ -	\$ -	\$ 507,576
Fixed income	1,843,537	7,930,224	-	9,773,761
Common stocks	8,756,105	10,407	2,434	8,768,946
Real estate investment trust	254,014	-	-	254,014
Commodities	<u>394,686</u>	<u>-</u>	<u>-</u>	<u>394,686</u>
Total	<u>\$11,755,918</u>	<u>\$ 7,940,631</u>	<u>\$ 2,434</u>	<u>\$19,698,983</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,237,205	\$ -	\$ -	\$ 1,237,205
Fixed income	1,802,296	7,673,007	-	9,475,303
Common stocks	7,285,302	-	-	7,285,302
Real estate investment trust	708,805	-	-	708,805
Commodities	<u>669,921</u>	<u>-</u>	<u>-</u>	<u>669,921</u>
Total	<u>\$11,703,529</u>	<u>\$ 7,673,007</u>	<u>\$ -</u>	<u>\$19,376,536</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 17 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

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

	2017	2016
Asset category		
Cash equivalents	2.6%	6.4%
Fixed income	49.6%	48.9%
Common stocks	44.5%	37.6%
Real estate	1.3%	3.6%
Commodities	2.0%	3.5%
Total	100.0%	100.0%

The Performing Arts Center contributed \$1,000,000 to the defined-benefit plan for the fiscal year ended June 30, 2016. No contribution was made in fiscal year 2017.

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

<u>Years Ending June 30,</u>	
2018	\$ 1,082,623
2019	1,116,496
2020	1,171,961
2021	1,164,416
2022	1,181,595
2023–2027	6,186,487
Total	\$11,903,578

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 \$378,650 and \$340,914 during the years ended June 30, 2017 and 2016, respectively.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

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, 2017; 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 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
		2017	2016	
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 8/31/2016	Green as of 8/31/2015	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	Contributions of PACLAC		Surcharge Imposed	Expiration Date of Bargaining Agreement
	2017	2016		
I.A.T.S.E. Local 33 Trust Fund	\$ 472,918	\$ 410,353	N/A	12/31/2017 ^(a)
League – ATPAM Pension Fund	\$ 39,536	\$ 39,234	N/A	9/1/2019
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	\$ 215,171	\$ 211,644	N/A	10/31/2016 ^(b)
American Federation of Musicians and Employers Pension Fund	\$ 23,890	\$ 1,586	No	8/31/2016 ^(c)

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 17 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

- (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.
- (b) Terminates on October 31, 2016 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 that changes are desired.
- (c) August 31, 2016 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 18 – 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, 2017 and 2016, rental income from these leases was \$407,640 and \$408,960, respectively. The rental income from the sublease agreements was presented in Center operations, rents.

NOTE 19 – CAPITAL PROJECTS

PACLAC receives funding from the County of Los Angeles for capital purposes, Center Operations or Capital Improvement. For the year ended June 30, 2017, PACLAC received \$2,000,000 of additional funding from the County of Los Angeles for capital purposes. For the year ended June 30, 2016, PACLAC did not receive any additional funds from the County of Los Angeles.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 20 – FOUNDERS ROOMS OPERATIONS

Earned income from and expenses related to the operation of the Founders Rooms were \$904,316 and \$1,272,759, respectively, during the year ended June 30, 2017 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 the year ended June 30, 2017, PACLAC received a total of \$703,916 in contributions from Founders members, of which \$317,000 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 \$451,011 was recorded as restricted contributions as this relates to fiscal year 2017 operations support. A total of \$200,400 in contributions received and restricted in fiscal year 2016 was released in fiscal year 2017.

Earned income from and expenses related to the operation of the Founders Rooms were \$897,536 and \$1,267,621, respectively, during the year ended June 30, 2016 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 the year ended June 30, 2016, PACLAC received a total of \$803,043 in contributions from Founders members, of which \$314,435 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 \$488,608 was recorded as restricted contributions as this relates to fiscal year 2017 operations support. A total of \$509,000 in contributions received and restricted in fiscal year 2015 was released in fiscal year 2016.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

PACLAC has employment agreements with key executives. As of June 30, 2017, the minimum payments under these agreements are summarized below:

Fiscal Years Ending <u>June 30,</u>	
2018	\$ 600,000
2019	600,000
2020	<u>600,000</u>
Total	<u>\$ 1,800,000</u>

At June 12, 2015, PACLAC entered into an employment agreement with an 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 her base compensation, which is determined in good faith by the Board Chair with Executive Committee agreement.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreements (Continued)

In the years ended June 30, 2017 and 2016, there are four key executive employees who are participants in the Supplemental Savings Plan, the deferral amount of which is determined in accordance with Internal Revenue Code SS 457(e)(15). Total deferred compensation related to the Supplemental Savings Plan was \$234,944 and \$171,418 at June 30, 2017 and 2016, respectively, and was reflected as an accrued expense 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.

County Audits

The County of Los Angeles and PACLAC have, since the early 1960s, entered into various agreements related to the operation of the Music Center. PACLAC is subject to inspection and audit by the County for funds related to the operations of PACLAC 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 PACLAC therefore has no provision for such within its financial statements.

NOTE 22 – RELATED PARTY TRANSACTIONS

Contributions and pledges received from the board of directors totaled \$5,402,431 and \$854,352 for the years ended June 30, 2017 and 2016 annual campaign, respectively. 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 23 – SUBSEQUENT EVENTS

Management evaluated all activity through September 29, 2017 (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.