

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 and 2017**

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

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June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Performing Arts Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

October 2, 2018

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,061,595	\$ 9,174,698
Investments	3,993,143	3,701,347
Contributions receivable, current portion, net	5,863,128	2,575,821
Due from Resident Companies	713,551	1,171,112
Facility fee receivable	141,573	229,234
Notes receivable, current portion	7,000	6,000
Other receivables	882,819	631,203
Prepaid expenses and other current assets	728,213	931,311
Total current assets	21,391,022	18,420,726
Noncurrent assets		
Investments	5,169,401	5,309,587
Investments held for capital improvement project	20,133,880	21,876,793
Contributions receivable, noncurrent portion, net	14,157,493	16,145,410
Notes receivable, noncurrent portion	2,800	7,121
Contract acquisition costs, net	2,564,848	3,748,624
Property and equipment, net	700,952	322,280
Beneficial interests	30,913,066	29,819,133
Total noncurrent assets	73,642,440	77,228,948
Total assets	\$ 95,033,462	\$ 95,649,674

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, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 4,789,127	\$ 1,914,671
Accrued expenses	2,206,147	1,968,891
Capital lease obligations, current portion	84,181	38,343
Payable to Resident Companies	700,950	656,492
Deferred facility fee revenues	2,133,723	2,655,816
Deferred restaurant revenue, current portion	612,804	612,804
Other deferred revenue	2,189,746	1,621,158
Bonds payable, current portion	500,000	480,000
Deposits and advances	362,530	406,113
Bonds interest payable	89,640	99,624
Total current liabilities	13,668,848	10,453,912
Noncurrent liabilities		
Capital lease obligations, noncurrent portion	228,271	73,498
Liability for pension benefits	4,958,477	5,606,117
Deferred restaurant revenue, noncurrent portion	714,938	1,327,742
Bonds payable, noncurrent portion	21,345,503	23,907,515
Total liabilities	40,916,037	41,368,784
Net assets		
Unrestricted deficit	(841,989)	(2,629,913)
Temporarily restricted	24,046,348	20,278,760
Permanently restricted	30,913,066	36,632,043
Total net assets	54,117,425	54,280,890
Total liabilities and net assets	\$ 95,033,462	\$ 95,649,674

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Revenues and public support					
Revenues					
Center operations					
County – operations	\$ 19,764,000	\$ -	\$ -	\$ 19,764,000	\$ 18,808,000
County – utilities	4,872,553	-	-	4,872,553	4,824,844
Rents	4,685,165	-	-	4,685,165	4,689,335
Facility fees	2,307,402	-	-	2,307,402	1,348,489
Services billing and other income	4,735,798	-	-	4,735,798	5,240,781
Total center operations revenue	36,364,918	-	-	36,364,918	34,911,449
Park operations and programming					
County – operations	4,825,611	-	-	4,825,611	4,970,511
County – utilities	255,665	-	-	255,665	256,892
Rents	553,862	-	-	553,862	397,466
Start up and other billing	794,905	-	-	794,905	643,517
Total park operations revenue	6,430,043	-	-	6,430,043	6,268,386
Education, programming and outreach					
Education	679,242	-	-	679,242	523,014
Presenting	4,474,380	-	-	4,474,380	3,775,458
Marketing	681,595	-	-	681,595	631,932
Founders Rooms operations	863,208	-	-	863,208	904,316
Total education, programming and outreach revenue	6,698,425	-	-	6,698,425	5,834,720
Capital improvements					
Mark Taper Forum	969,000	-	-	969,000	941,000
Restaurants	612,804	-	-	612,804	612,804
Other capital improvements	1,679	-	-	1,679	2,277
Total capital improvements revenue	1,583,483	-	-	1,583,483	1,556,081
Other revenue					
Change in value of beneficial interests	-	-	814,836	814,836	1,805,385
Interest and other investment income (loss)	3,302,147	(63,212)	-	3,238,935	4,389,917
Total other revenue	3,302,147	(63,212)	814,836	4,053,771	6,195,302
Total revenue	54,379,016	(63,212)	814,836	55,130,640	54,765,938
Public support	8,723,096	10,373,642	279,096	19,375,834	15,715,378
Net assets released from restrictions					
Satisfaction of purpose restrictions	10,375,135	(10,375,135)	-	-	-
Satisfaction of time restrictions	2,980,616	(2,980,616)	-	-	-
Adjustment upon adoption of ASU 2018-08	-	6,812,909	(6,812,909)	-	-
Total net assets released from restrictions	13,355,751	(6,542,842)	(6,812,909)	-	-
Total public support after release from restrictions	22,078,847	3,830,800	(6,533,813)	19,375,834	15,715,378
Total revenue and public support	76,457,863	3,767,588	(5,718,977)	74,506,474	70,481,316

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
(Continued)					
Expenses					
Program expenses					
Center operations					
Facility operations	\$ 18,707,253	\$ -	\$ -	\$ 18,707,253	\$ 17,461,479
Stage operations	4,348,667	-	-	4,348,667	4,751,027
Theater operations	5,184,706	-	-	5,184,706	4,737,290
Other operating departments	1,239,496	-	-	1,239,496	951,834
County in-kind support of utilities	4,872,553	-	-	4,872,553	4,824,844
Total operations expenses	34,352,675	-	-	34,352,675	32,726,474
Park operations and programming					
Operations	3,075,433	-	-	3,075,433	2,960,462
Programming	3,133,556	-	-	3,133,556	2,649,614
Utilities	255,665	-	-	255,665	256,892
Total park operations and programming expenses	6,464,654	-	-	6,464,654	5,866,968
Education, programming and outreach					
Education	2,324,152	-	-	2,324,152	1,889,004
Presenting	9,245,531	-	-	9,245,531	6,716,611
Resident Companies allocation	774,913	-	-	774,913	729,936
Public information and marketing	695,158	-	-	695,158	631,666
Founders Rooms operations	1,258,569	-	-	1,258,569	1,272,759
Total education, programming and outreach expenses	14,298,323	-	-	14,298,323	11,239,976
Capital improvements					
Mark Taper Forum	1,092,338	-	-	1,092,338	1,215,427
Restaurant construction	1,183,776	-	-	1,183,776	1,178,896
Plaza Renovation	10,003,622	-	-	10,003,622	2,710,678
Other capital improvements	1,107,822	-	-	1,107,822	6,837
Total capital improvements expenses	13,387,558	-	-	13,387,558	5,111,838
Total program expenses	68,503,210	-	-	68,503,210	54,945,256
Administration and development					
Administration	3,970,220	-	-	3,970,220	3,890,255
Development	2,840,064	-	-	2,840,064	2,783,254
Total administration and development expense	6,810,284	-	-	6,810,284	6,673,509
Total expenses	75,313,494	-	-	75,313,494	61,618,765
Change in net assets before other comprehensive income (loss)	1,144,369	3,767,588	(5,718,977)	(807,020)	8,862,551
Other comprehensive income related to pension obligation	643,555	-	-	643,555	1,917,205
Change in net assets after other comprehensive income (loss)	1,787,924	3,767,588	(5,718,977)	(163,465)	10,779,756
Net assets (deficit), beginning of year	(2,629,913)	20,278,760	36,632,043	54,280,890	43,501,134
Net assets (deficit), end of year	\$ (841,989)	\$ 24,046,348	\$ 30,913,066	\$ 54,117,425	\$ 54,280,890

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets after other comprehensive income (loss)	\$ (163,465)	\$ 10,779,756
Adjustments to reconcile change in net assets after comprehensive income (loss) to cash used in operating activities:		
Comprehensive income related to pension obligation	(643,555)	(1,917,205)
Depreciation and amortization	188,816	257,525
Amortization of bond issuance costs	30,921	31,518
Amortization of contract acquisition costs	1,183,776	1,178,896
Bad debt expense (recovery)	22,170	(914)
Loss (gain) from disposal of property and equipment	5,003	(750)
Contributed investment securities	(714,476)	(889,703)
Realized and unrealized gain on investments and securities	(1,988,620)	(3,310,420)
Adjustment upon adoption of ASU 2018-08	(6,812,909)	-
Amortization of bond premium	(92,933)	(35,433)
Contributions to permanently restricted fund:		
Distributions (contributions)	6,533,813	(591,567)
Investment income	(814,836)	(1,805,385)
Change in operating assets and liabilities:		
Contributions receivable, net	(1,321,560)	(2,372,811)
Due from Resident Companies	457,561	(288,673)
Facility fee receivable, net of deferred facility fee revenue	(434,432)	748,112
Other receivables	(251,616)	(277,693)
Prepaid expenses and other current assets	203,098	(54,942)
Beneficial interests	(1,093,933)	(2,938,253)
Accounts payable	2,874,456	(263,318)
Accrued expenses	237,256	344,635
Payable to Resident Companies	44,458	(69,938)
Other deferred revenue	(44,216)	(1,256,455)
Deposits and advances	(43,583)	108,923
Bonds interest payable	(9,984)	(1,533)
Liability for pension benefits	(4,085)	34,363
	(2,652,875)	(2,591,265)
Net cash used in operating activities		

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
		(Continued)
Cash flows from investing activities		
Purchases of investments held for capital improvement project	(2,533,256)	(2,600,881)
Proceeds from sale of investments held for capital improvement project	5,731,091	2,854,066
Dividend and interest income from capital investments	(28,340)	(13,154)
Purchases of property and equipment	(304,878)	(63,363)
Proceeds from sale of property and equipment	-	750
Payments for contract acquisition costs	-	(90,728)
Collections of notes receivable	3,321	4,222
Purchases of investments	(51,261)	(168,441)
Proceeds from sale of investments	<u>1,176,165</u>	<u>1,197,062</u>
Net cash provided by investing activities	<u>3,992,842</u>	<u>1,119,533</u>
Cash flows from financing activities		
Principal payments of capital leases	(67,002)	(131,182)
Principal payments of bonds payable	(2,480,000)	(460,000)
Endowment receivable collections	279,096	591,567
Endowment fund investment income	<u>814,836</u>	<u>1,805,385</u>
Net cash (used in) provided by financing activities	<u>(1,453,070)</u>	<u>1,805,770</u>
Net (decrease) increase in cash and cash equivalents	(113,103)	334,038
Cash and cash equivalents, beginning of year	<u>9,174,698</u>	<u>8,840,660</u>
Cash and cash equivalents, end of year	<u>\$ 9,061,595</u>	<u>\$ 9,174,698</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 1,043,902</u>	<u>\$ 1,172,918</u>
Supplemental schedule of noncash investing and financing activities		
Equipment purchased under capital leases	<u>\$ 267,613</u>	<u>\$ -</u>

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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. PACLAC operates under an agreement with the County of Los Angeles to both maintain the facilities and present performances. The agreement expires June 25, 2064. PACLAC manages Grand Park under an agreement with the County of Los Angeles through June 30, 2019.

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 includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with PACLAC’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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 \$841,989 in its unrestricted net assets at June 30, 2018. \$8,280,394 pertains to the cumulative loss related to pension obligations, offset by \$7,438,405 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 unconditional gifts, bequests and other public support are included in unrestricted net assets unless they are specifically restricted by the donor’s terms of the gift or grant instrument or require the passage of time.

Contributions 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.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

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, 2018 and 2017, 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 unconditional contributions receivable, net of allowances for uncollectible amounts, whenever there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. 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, 2018 and 2017 was \$83,179,742 and \$72,042,796, respectively, including \$11,136,946 and \$3,206,915 of purchases for the years ended June 30, 2018 and 2017, 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, 2018 and 2017

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 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, 2018 and 2017

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 2018 and 2017, 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2018 and 2017, PACLAC had no material uncertain tax positions, tax penalties or interest.

Use of Estimates

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

At June 30, 2018, 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 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, 2018, PACLAC had deposits in excess of federally insured limits totaling \$9,857,866. 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 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 promises to give 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 87% and 98% of the contributions receivable at June 30, 2018, and 2017, respectively.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement

In May 2015, the 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)*, which 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 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. This ASU was effective for PACLAC for fiscal years beginning after December 15, 2016. The amendments in ASU 2015-07 were applied retrospectively to all periods presented. PACLAC adopted ASU 2015-07 to remove from the fair value hierarchy all investments for which fair value is measured, using net asset value per share as a practical expedient. In accordance with ASU 2015-07, previously reported investments have been conformed to the current presentation.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 should be applied on a modified prospective basis and retrospective application is permitted. ASU 2018-08 will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management elected to early adopt the pronouncement on a modified prospective basis. The effect of the adoption amounted to an increase of \$6,812,909 in temporarily restricted net assets a corresponding decrease in permanently restricted net assets.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued 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, 2017. 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, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

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

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, 2018, 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 Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. ASU 2016-13 requires financial assets measured at amortized cost (including loans, trade receivables, and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. ASU 2016-13 requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. Management is in the process of evaluating the impact of this accounting pronouncement.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

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

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, 2018 and 2017

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, except those measured by using NAV per share as a practical expedient as identified in the following, as of June 30, 2018 and 2017:

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

	2017				
	Level 1	Level 2	Level 3	Measured at NAV	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	-	-	-	29,819,133	29,819,133
Total	\$ 4,289,617	\$ -	\$ -	\$56,417,243	\$60,706,860

**THE PERFORMING ARTS CENTER OF
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June 30, 2018 and 2017

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table represents MCF's Level 3 financial instruments for the year ended March 31, 2018, the valuation technique used to measure the fair value of the financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

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

The following table represents 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:

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Beneficial interests	\$ 29,819,133	Net asset value	Discount rate	1.94%–2.54%

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts due		
In less than one year	\$ 5,967,090	\$ 2,645,979
In one to five years	8,835,000	10,400,500
In more than five years	<u>9,375,000</u>	<u>10,100,000</u>
Total gross contributions receivable	24,177,090	23,146,479
Less		
Allowance for doubtful amounts	(167,613)	(150,999)
Present value discount	<u>(3,988,856)</u>	<u>(4,274,249)</u>
Total contributions receivable, net	20,020,621	18,721,231
Less contributions receivable, current portion	<u>(5,863,128)</u>	<u>(2,575,821)</u>
Contributions receivable, noncurrent portion	<u>\$ 14,157,493</u>	<u>\$ 16,145,410</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT

Investments consisted of the following as of June 30, 2018 and 2017:

	2018	2017
MCF investments, current	\$ 3,993,143	\$ 3,701,347
MCF investments, noncurrent	5,169,401	5,309,587
Total	<u>\$ 9,162,544</u>	<u>\$ 9,010,934</u>

Investments held for capital improvement project consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ -	\$ 548,917
Money market funds	1,675,478	3,740,700
MCF investments	18,458,402	17,587,176
Total	<u>\$ 20,133,880</u>	<u>\$ 21,876,793</u>

As of June 30, 2018 and 2017, \$1,716,102 and \$1,713,385, 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 investments with MCF as of June 30, 2018 and 2017, which are valued using the fair value practical expedient of net asset value in accordance with US. GAAP.

	2018	2017
Investments	\$ 9,162,544	\$ 9,010,934
Investments held for capital improvements	18,458,402	17,587,176
Total	<u>\$ 27,620,946</u>	<u>\$ 26,598,110</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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

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

	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>		

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

**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 31% and 32% of this fund includes investments in equity funds mirroring S&P 500 sector weighting by June 30, 2018 and 2017, 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 19% and 18% of this fund includes investments in international (non-U.S.) equity funds by June 30, 2018 and 2017, respectively. The fair value of the investments in this category has been estimated using net asset values per share of the investments and can be redeemed monthly with a six-day notice period. Restrictions include a provision where the fund may suspend redemptions when it is impossible to determine the net asset value or in other emergency situations.

Approximately 13% and 12% of this fund includes investments in emerging market equity funds by June 30, 2018 and 2017, 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 14% of this fund includes investments in long-term and short-term equity-focused hedge funds by June 30, 2018 and 2017, 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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June 30, 2018 and 2017

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

Approximately 1% and 1% of this fund includes investments in a commodity index fund backed by inflation-indexed bonds and long-term and short-term global natural resources securities, commodities and real assets funds by June 30, 2018 and 2017, 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 16% of this fund includes investments in absolute return funds and emerging market long- and short-term funds by June 30, 2018 and 2017, respectively. The fair values of the investments in this category are based on net asset values per share of the investments and can be redeemed upon various frequencies quarterly or annually. Investments representing 87% of the value of the investments in this category are subject to lockups or gates whereby the general partner retains the right to limit withdrawals from all limited partners to 20–25% of aggregated limited partner capital on any one withdrawal date. Further restrictions provide that 90–95% of these same investments can be withdrawn at once with the remainder to be paid out 30–45 days after completion of the fund's annual audit. Funds may elect to suspend distributions when it is impossible to determine net asset values or any other emergency situations.

Approximately 5% and 5% of this fund includes investments in high-quality, fixed income funds by June 30, 2018 and 2017, 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
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 6 – DUE FROM RESIDENT COMPANIES

Due from Resident Companies consisted of the following as of June 30, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Center Theatre Group	\$ 373,343	\$ 527,261
Los Angeles Opera	299,970	609,645
Los Angeles Philharmonic Association	22,252	20,362
Los Angeles Master Chorale Association	<u>17,986</u>	<u>13,844</u>
Total	<u>\$ 713,551</u>	<u>\$ 1,171,112</u>

NOTE 7 – OTHER RECEIVABLES

Other receivables consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
California Philharmonic Orchestra	\$ 17,790	\$ 23,319
City and County of Los Angeles	17,824	82,390
City Gala	-	15,280
Education Division	147,077	89,036
Founders' members	34,342	66,301
Goldstar Consignment Receivable	54,646	-
KKJZ Fundraising Inc.	58,369	-
LA Times Food Fest	209,719	66,525
Lawyers in Concert	35,601	-
Los Angeles County High School	39,395	25,657
Music Center Foundation	27,365	76,560
Patina Group	145,173	170,601
San Francisco AIDS Foundation	16,863	-
United Teachers Los Angeles	10,154	-
Other	<u>68,501</u>	<u>15,534</u>
Total	<u>\$ 882,819</u>	<u>\$ 631,203</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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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, 2018, the facility fee receivable and deferred revenues were \$141,573 and \$2,133,723, respectively. At June 30, 2017, the facility fee receivable and deferred revenues were \$229,234 and \$2,655,816, respectively.

For the years ended June 30, 2018 and 2017, PACLAC recognized \$3,276,402 and \$2,289,489, respectively, as “County Facility Fee income.” County Facility Fee income for the years ended June 30, 2018 and 2017 has been included within Facility Fees and Mark Taper Forum on the accompanying statement of activities.

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

During 2003, 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, 2018 and 2017.

**THE PERFORMING ARTS CENTER OF
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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 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, 2018 and 2017 was as follows:

	2018	2017
Restaurant deferred revenue, current portion	\$ 612,804	\$ 612,804
Restaurant deferred revenue, noncurrent portion	714,938	1,327,742
Total	<u>\$ 1,327,742</u>	<u>\$ 1,940,546</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 as restaurant income related to the construction contribution during the years ended June 30, 2018 and 2017.

Net contract acquisition costs consisted of the following at June 30, 2018 and 2017:

	2018	2017
Contract acquisition costs	\$17,761,302	\$17,761,302
Accumulated amortization	(15,196,454)	(14,012,678)
Contract acquisition costs, net	<u>\$ 2,564,848</u>	<u>\$ 3,748,624</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Amortization expense amounted to \$1,183,776 and \$1,178,896 during the years ended June 30, 2018 and 2017, respectively.

PACLAC recognized \$1,187,444 and \$1,350,172 in license fees for food service operations from RA Music, Inc. for the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

	2018	2017
Computer equipment	\$ 1,633,643	\$ 1,456,517
Assets held under lease	504,264	259,133
Furniture, phone and office equipment	397,340	1,035,198
Automotive equipment	6,486	6,486
Construction in Progress	84,016	-
	2,625,749	2,757,334
Accumulated depreciation	(1,924,797)	(2,435,054)
Property and equipment, net	\$ 700,952	\$ 322,280

Depreciation and amortization expense amounted to \$188,816 and \$257,525 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 – BENEFICIAL INTERESTS

As of June 30, 2018 and 2017, PACLAC's beneficial interests administered and controlled by other organizations are as follows:

	2018	2017
Split-interest agreements – Harris Trust and Mairangi Trust	\$ 764,731	\$ 776,293
Music Center Foundation	30,148,335	29,042,840
Total	\$ 30,913,066	\$ 29,819,133

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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

NOTE 12 – ACCRUED EXPENSES

As of June 30, 2018 and 2017, accrued expenses consisted of the following:

	2018	2017
Accrued compensation, vacation and benefits	\$ 2,044,083	\$ 1,906,626
Other	162,064	62,265
Total accrued expenses	\$ 2,206,147	\$ 1,968,891

NOTE 13 – 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, 2018 reflects the gross Bonds payable plus premium less bond issuance costs. The amortization of the Bonds’ premium costs were \$92,933 and \$35,433 during the years ended June 30, 2018 and 2017, respectively. The amortization of the Bonds’ issuance costs was \$30,921 and \$31,518 during the years ended June 30, 2018 and 2017, respectively.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 13 – 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>
2019	\$ 500,000	4.20%
2020	525,000	4.25%
2021	545,000	4.30%
2022	570,000	4.38%
2023	595,000	5.00%
Thereafter	<u>19,085,000</u>	5.00%
Total	<u>\$ 21,820,000</u>	

Interest expense during the years ended June 30, 2018 and 2017 was \$1,032,669 and \$1,167,719, 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>2018</u>	<u>2017</u>
Total cash and money market	<u>\$ 1,716,102</u>	<u>\$ 1,713,385</u>

**THE PERFORMING ARTS CENTER OF
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NOTE 13 – DEBT (Continued)

Capital Leases

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

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

<u>Years Ending</u>	<u>Capital Lease Obligation</u>	<u>Bonds Payable</u>
2019	\$ 84,181	\$ 500,000
2020	77,632	525,000
2021	69,576	545,000
2022	56,764	570,000
2023	24,299	595,000
Thereafter	<u>-</u>	<u>19,085,000</u>
Total	312,452	21,820,000
Add unamortized bond premium, net	-	491,055
Less unamortized bond issuance costs	-	(465,552)
Less current maturities of debt	<u>(84,181)</u>	<u>(500,000)</u>
Total debt, noncurrent portion	<u>\$ 228,271</u>	<u>\$ 21,345,503</u>

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Dance Fund	\$ 4,538,882	\$ 4,776,435
Blue Ribbon	663,740	681,193
Founders	558,099	451,011
Capital	151,489	685,319
Education	51,370	918,420
Active Arts	50,000	141,374
Other restricted for use	261,457	641,385
Other restricted for passage of time and use	<u>17,771,311</u>	<u>11,983,623</u>
Total temporarily restricted net assets	<u>\$ 24,046,348</u>	<u>\$ 20,278,760</u>

As a result of the early adoption of ASU 2018-08, promises to give restricted for passage of time and use of \$6,812,909 were transferred from permanently restricted net assets to temporarily restricted net assets.

**THE PERFORMING ARTS CENTER OF
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NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of the following:

	2018	2017
Beneficial interests in perpetual trust at		
Music Center Foundation	\$ 23,123,716	\$ 22,122,112
Other institutions	764,731	776,293
Promises to give to be placed into perpetual trust at		
the Music Center Foundation	7,024,619	6,920,729
Promises to give held by PACLAC	-	6,812,909
Total	\$ 30,913,066	\$ 36,632,043

As a result of the early adoption of ASU 2018-08, Promises to give held by PACLAC of \$6,812,909 were transferred from permanently restricted net assets to temporarily restricted net assets.

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

Return Objectives and Risk Parameters

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

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

MCF has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value (excluding pledges receivable) over the prior twelve quarters through the preceding fiscal year in which the distribution is planned. In establishing this policy, MCF considered the long-term expected return on its endowment and operating expenses. Accordingly, over the long term, MCF expects the current spending policy to allow its endowment to grow at the rate of inflation. This is consistent with MCF's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

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

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

1. The duration and preservation of the fund
2. The purposes of MCF and the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of MCF
7. The investment policies of MCF

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

	2018	2017
Education programs	\$10,919,391	\$10,589,246
Blue Ribbon Children's festival	8,261,734	7,875,472
Dance presentations	1,974,120	8,708,740
Spotlight program	1,830,642	1,786,184
Other programs	7,927,179	7,672,401
Total permanently restricted net assets	\$30,913,066	\$36,632,043

As a result of the early adoption of ASU 2018-08, Dance presentations of \$6,812,909 were transferred from permanently restricted net assets to temporarily restricted net assets.

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

	2018	2017
Balance, beginning of year	\$36,632,043	\$34,235,091
Investment Income	1,888,286	3,028,310
Contributions	279,096	1,132,867
Release due to satisfaction	-	(725,000)
Distributions	(1,073,450)	(1,039,225)
Adjustment upon adoption of ASU 2018-08	(6,812,909)	-
Balance, end of year	\$30,913,066	\$36,632,043

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – RETIREMENT PLANS

Defined-pension Plan

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

The following sets forth the components of net periodic benefit cost and the obligations and funded status of the Plan. Valuations of assets and liabilities are determined using a measurement date of June 30, 2018.

Net periodic benefit cost (income) consisted of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Service cost	\$ 25,925	\$ 25,850
Interest cost	915,798	896,407
Expected return on plan assets	(1,148,710)	(1,132,557)
Recognized actuarial loss	202,902	244,663
Net periodic benefit cost (income)	\$ (4,085)	\$ 34,363

Benefit obligation status was as follows as of June 30, 2018 and 2017:

	2018	2017
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 25,305,100	\$ 26,865,495
Service cost	25,925	25,850
Interest cost	915,798	896,407
Assumption change – income	(1,188,825)	(1,886,824)
Actuarial loss	199,317	233,831
Estimated administrative expense	(25,000)	(25,000)
Benefits paid	(1,126,577)	(804,659)
Benefit obligation, end of year	\$ 24,105,738	\$ 25,305,100

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Funded status was as follows as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 19,698,983	\$ 19,376,536
Actual return on plan assets	626,410	1,166,499
Actual administrative expenses and benefits paid	<u>(1,178,132)</u>	<u>(844,052)</u>
Fair value of plan assets, end of year	<u>\$ 19,147,261</u>	<u>\$ 19,698,983</u>
Funded status	<u>\$ (4,958,477)</u>	<u>\$ (5,606,117)</u>

During the year ended June 30, 2018, PACLAC also recorded the actuarial income as an adjustment to net assets.

The following represents pension costs directly charged to net assets:

	<u>2018</u>	<u>2017</u>
Accumulated net adjustment to net assets, beginning of year	<u>\$ (8,923,949)</u>	<u>\$ (10,841,154)</u>
Current year change		
Actuarial income during the year	440,653	1,672,542
Amortization	<u>202,902</u>	<u>244,663</u>
	<u>643,555</u>	<u>1,917,205</u>
Accumulated net adjustment to net assets, end of year	<u>\$ (8,280,394)</u>	<u>\$ (8,923,949)</u>

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – 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 5.75% which is equal to the Plan’s actuarial assumption. This target rate will be subject to adjustment. To satisfy its long-term rate of return objectives, the Plan assets will be managed on a total return basis recognizing the importance of the balance between risk and reward and the preservation of capital.

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
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – 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 – 2017 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 (4.0%).

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

	2018	2017
Discount rate	4.00%	3.70%
Expected long-term rate of return on assets	5.75%	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
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NOTE 16 – 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.

<i>Cash equivalents:</i>	Valued at carrying value, which approximates fair value due to the short-term nature of such investments
U.S. government bonds:	Valued at the closing price reported on the active market on which the individual securities are traded
Mutual funds:	Valued at the 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
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – 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, 2018:

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

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	394,686	-	-	394,686
Total	<u>\$11,755,918</u>	<u>\$ 7,940,631</u>	<u>\$ 2,434</u>	<u>\$19,698,983</u>

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 16 – RETIREMENT PLANS (Continued)

Defined-pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

Asset allocations by category were as follows at June 30:

	2018	2017
Asset category		
Cash equivalents	3.0%	2.6%
Fixed income	50.5%	49.6%
Equities and hedge funds	43.3%	44.5%
Real estate	0.3%	1.3%
Commodities	2.9%	2.0%
Total	100.0%	100.0%

No contributions were made in fiscal years 2018 and 2017.

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

<u>Years Ending</u> <u>June 30,</u>	
2019	\$ 1,139,131
2020	1,190,660
2021	1,182,719
2022	1,199,635
2023	1,192,294
2024–2028	6,527,260
Total	\$12,431,699

Defined-contribution Plan

The Performing Arts Center also sponsors a defined-contribution plan covering eligible employees. Participants can elect to contribute 3% to 25% of their pretax annual compensation, as defined in the Plan, subject to Internal Revenue Service withholding rules. 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 \$386,516 and \$378,650 during the years ended June 30, 2018 and 2017, respectively.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – 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, 2018; 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, payable under these plans. According to U.S. GAAP, no liability is required to be recorded by a participant in an underwater multi-employer premium plan, except when a participant withdraws from such plan.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status/Pending/ Implemented
		2018	2017	
I.A.T.S.E. Local 33 Trust Fund	95-6377503/001	Green	Green	No
League – ATPAM Pension Fund	13-298856/001	Yellow	Green	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
	2018	2017		
I.A.T.S.E. Local 33 Trust Fund	\$ 436,186	\$ 472,918	N/A	12/31/2017 ^(a)
League – ATPAM Pension Fund	\$ 41,337	\$ 39,536	N/A	9/1/2019
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	\$ 252,792	\$ 215,171	N/A	10/31/2021 ^(b)
American Federation of Musicians and Employers Pension Fund	\$ 72,074	\$ 23,890	No	8/31/2021 ^(c)

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 16 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

- (a) The agreement term expired December 31, 2017 but is currently under extension, pending ratification of negotiated terms by Local 33 membership.
- (b) The agreement is in effect from November 1, 2016 to and including October 31, 2021 and from year to year thereafter, subject to amendment or modification affecting changes and condition of employment; it being understood that either party wishing to amend or to terminate the Agreement shall give the other party written notice sixty (60) days prior to November 1, 2021, that changes are desired.
- (c) The agreement is in effect during the period commencing September 1, 2016 and continuing through August 31, 2021, and from year to year thereafter unless written notice is given by either party to the other of its desire to terminate or modify the Agreement.

NOTE 17 – 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, 2018 and 2017, rental income from these leases was \$407,639 and \$407,640, respectively. The rental income from the sublease agreements is included in Center operations, rents.

NOTE 18 – CAPITAL PROJECTS

PACLAC receives funding from the County of Los Angeles for capital purposes, Music Center operations, or capital improvements. For the years ended June 30, 2018 and June 30, 2017, PACLAC received additional funding from the County of Los Angeles for capital purposes of \$7,264,261 and \$2,000,000, respectively.

**THE PERFORMING ARTS CENTER OF
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June 30, 2018 and 2017

NOTE 19 – FOUNDERS ROOMS OPERATIONS

Earned income from and expenses related to the operation of the Founders Rooms were \$863,208 and \$1,258,569 respectively, during the year ended June 30, 2018 and are reflected as components of education and outreach revenue and education and outreach expenses, respectively, in the accompanying statement of activities. In addition, during the year ended June 30, 2018, PACLAC received a total of \$893,699 in contributions from Founders members, of which \$338,800 was recorded as unrestricted contributions, as restrictions (through the operation of the Founders Rooms and the Music Center) are met in the same year the contributions are received, and \$554,899 was recorded as restricted contributions as this relates to fiscal year 2018 operations support. A total of \$196,000 in contributions received and restricted in fiscal year 2017 was released in fiscal year 2018.

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.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

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 base compensation, which is determined in good faith by the Board Chair with Executive Committee agreement. As of June 30, 2018, the minimum payments under this agreement for future years ending June 30 are summarized below:

	2019	\$ 600,000
	2020	<u>600,000</u>
Total		<u>\$ 1,200,000</u>

In the years ended June 30, 2018 and 2017, four key executive employees participated in the Supplemental Savings Plan, the deferral amount of which is determined in accordance with Internal Revenue Code §457(e)(15). Total deferred compensation related to the Supplemental Savings Plan was \$210,242 and \$234,944 at June 30, 2018 and 2017, respectively, and is reflected as an accrued expense in the accompanying statements of financial position.

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 20 – COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings

PACLAC 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 PACLAC'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 21 – RELATED PARTY TRANSACTIONS

Annual campaign contributions and promises to give received from the board of directors totaled \$2,930,100 and \$5,402,431 for the years ended June 30, 2018 and 2017, respectively. These contributions and promises to give are reported under Public Support in the statement of activities or Deferred Revenue in the statement of financial position, depending on the program the contribution relates to.

NOTE 22 – SUBSEQUENT EVENTS

Management evaluated all activity through October 2, 2018 (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.