

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
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June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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



Report on the Financial Statements

We have audited the accompanying financial statements of the Performing Arts Center of Los Angeles County (a California nonprofit organization) (the "Performing Arts Center") which comprise the statement of financial position as of June 30, 2015, the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Performing Arts Center of Los Angeles County as of June 30, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Performing Arts Center's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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 "SingerLewak LLP". The signature is written in a cursive, flowing style.

SingerLewak LLP

Los Angeles, California
October 29, 2015

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(with Comparative Totals for June 30, 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	\$ 8,137,114	\$ 5,952,471
Short-term investments	2,047,885	3,427,397
Current portion of contributions receivable, net	1,290,612	1,421,082
Accounts receivable from Resident Companies	823,126	928,789
Facility fee receivable	187,442	115,970
Current portion of notes receivable	7,500	706,000
Other receivables	1,051,942	1,019,466
Prepaid and other current assets	578,041	918,292
Total current assets	14,123,662	14,489,467
Long-term investments	3,632,608	3,783,920
Investments held for capital improvement project	21,247,323	20,450,682
Contributions receivable, net of current portion	15,382,469	15,864,767
Notes receivable, net of current portion	14,050	16,813
Contract acquisition costs, net of accumulated amortization of \$11,708,492 and \$10,612,135, respectively	5,809,090	6,431,710
Property and equipment, net of accumulated depreciation of \$1,898,527 and \$1,949,924, respectively	645,268	739,923
Beneficial interests	30,644,613	29,882,733
Total assets	\$ 91,499,083	\$ 91,660,015

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(with Comparative Totals for June 30, 2014)

LIABILITIES AND NET ASSETS

	2015	2014
Current liabilities		
Accounts payable	\$ 2,248,998	\$ 2,420,037
Accrued expenses	1,839,001	2,300,688
Current portion of capital lease obligations	193,576	188,148
Payable to Resident Companies	769,148	696,093
Deferred facility fee revenues	2,158,607	1,806,831
Current portion of deferred revenue, restaurant	612,804	488,220
Current portion of deferred revenue, other	1,015,731	1,240,362
Current portion of bond payable	445,000	425,000
Deposits and advances	205,716	230,861
Bond interest payable	102,640	104,057
Total current liabilities	9,591,221	9,900,297
Capital lease obligations, net of current portion	156,624	296,487
Liability for pension benefits	5,070,280	3,074,445
Deferred restaurant revenue, net of current portion	2,553,350	2,522,470
Bonds payable, net	24,854,340	25,301,515
Total liabilities	42,225,815	41,095,214
Commitment and contingencies (Note 22)		
Net assets		
Unrestricted	(4,660,575)	(2,056,085)
Temporarily restricted	16,198,784	15,125,820
Permanently restricted	37,735,059	37,495,066
Total net assets	49,273,268	50,564,801
Total liabilities and net assets	\$ 91,499,083	\$ 91,660,015

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015
(with Comparative Totals for the Year Ended June 30, 2014)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
Earned revenues and public support					
Revenues					
Center operations					
County - operations	\$ 16,928,000	\$ -	\$ -	\$ 16,928,000	\$ 15,838,999
County - utilities	5,214,414	-	-	5,214,414	5,380,914
Rents	4,056,414	-	-	4,056,414	4,501,747
Facility fees	1,929,646	-	-	1,929,646	2,176,913
Services billing and other income	4,732,034	-	-	4,732,034	4,337,258
Total center operations revenue	32,860,508	-	-	32,860,508	32,235,831
Park operations					
County - operations	4,414,960	-	-	4,414,960	4,787,839
County - utilities	252,831	-	-	252,831	218,763
Rents	262,822	-	-	262,822	173,685
Start up and other billing	1,747,285	-	-	1,747,285	485,772
Total park operations revenue	6,677,898	-	-	6,677,898	5,666,059
Education, programming and outreach					
Education	742,626	-	-	742,626	608,405
Presenting	3,921,868	-	-	3,921,868	2,741,938
Marketing	915,636	-	-	915,636	967,676
Founders Rooms operations	909,696	-	-	909,696	928,582
Total education, programming and outreach revenue	6,489,826	-	-	6,489,826	5,246,601
Capital improvements					
Mark Taper Forum	887,000	-	-	887,000	861,000
Restaurants	602,422	-	-	602,422	483,228
Other capital improvements	15,832	-	-	15,832	553,889
Total capital improvements revenue	1,505,254	-	-	1,505,254	1,898,117
Other earned revenue					
Change in value of beneficial interests	-	-	64,523	64,523	2,452,654
Interest and other investment income	2,047,046	(149,277)	-	1,897,769	4,113,896
Total other earned revenue	2,047,046	(149,277)	64,523	1,962,292	6,566,550
Total earned revenue	49,580,531	(149,277)	64,523	49,495,777	51,613,158
Public support	6,729,701	4,710,589	175,470	11,615,760	11,014,689
Net assets released from restrictions					
Satisfaction of program restrictions	2,369,948	(2,369,948)	-	-	-
Satisfaction of time restrictions	1,118,400	(1,118,400)	-	-	-
Total net assets released from restrictions	3,488,348	(3,488,348)	-	-	-
Total public support after release from restrictions	10,218,049	1,222,241	175,470	11,615,760	11,014,689
Total earned revenue and public support	59,798,580	1,072,964	239,993	61,111,537	62,627,847

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015
(with Comparative Totals for the Year Ended June 30, 2014)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
Expenses					
Program expenses					
Center operations					
Facility operations	\$ 16,780,793	\$ -	\$ -	\$ 16,780,793	\$ 15,902,226
Stage operations	3,805,279	-	-	3,805,279	3,840,011
Theater operations	4,011,906	-	-	4,011,906	3,738,973
Other operating departments	1,196,710	-	-	1,196,710	1,288,732
County in-kind support of utilities	5,214,414	-	-	5,214,414	5,380,914
Total operations expenses	31,009,102	-	-	31,009,102	30,150,856
Park operations and programming					
Operations	2,446,152	-	-	2,446,152	2,861,120
Programming	2,839,070	-	-	2,839,070	1,957,006
Start up and other expenses	871,538	-	-	871,538	236,753
Utilities	252,831	-	-	252,831	218,763
Total park operations and programming expenses	6,409,591	-	-	6,409,591	5,273,642
Education, programming and outreach					
Education	2,315,383	-	-	2,315,383	2,328,214
Presenting	8,914,139	-	-	8,914,139	7,455,987
Resident Companies allocation	836,877	-	-	836,877	761,487
Public information and marketing	1,184,494	-	-	1,184,494	1,049,803
Founders Rooms operations	1,265,809	-	-	1,265,809	1,281,752
Total education, programming and outreach expenses	14,516,702	-	-	14,516,702	12,877,243
Capital improvements expense					
Mark Taper Forum	1,249,010	-	-	1,249,010	1,268,162
Restaurant construction	720,383	-	-	720,383	516,351
Other capital improvements	(103,022)	-	-	(103,022)	165,269
Total capital improvements expenses	1,866,371	-	-	1,866,371	1,949,782
Total program expenses	53,801,766	-	-	53,801,766	50,251,523
Administration and development					
Administration	3,309,559	-	-	3,309,559	3,815,827
Development	3,120,465	-	-	3,120,465	3,472,501
Total administration and development expense	6,430,024	-	-	6,430,024	7,288,328
Total expenses	60,231,789	-	-	60,231,789	57,539,851
Change in net assets before comprehensive income (loss)	(433,209)	1,072,964	239,993	879,748	5,087,996
Comprehensive income (loss) related to pension obligation	(2,171,281)	-	-	(2,171,281)	(222,942)
Change in net assets after comprehensive income (loss)	(2,604,490)	1,072,964	239,993	(1,291,533)	4,865,054
Net assets, beginning of year	(2,056,085)	15,125,820	37,495,066	50,564,801	45,699,747
Net assets, end of year	\$ (4,660,575)	\$ 16,198,784	\$ 37,735,059	\$ 49,273,268	\$ 50,564,801

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015
(with Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (1,291,533)	\$ 4,865,054
Adjustments to reconcile changes in net assets to cash used in operating activities		
Depreciation and amortization	327,556	299,108
Amortization of contract acquisition costs	1,096,358	1,032,703
Bad debt revenue/expense	(285,043)	(418,366)
(Gain) Loss from disposal of property and equipment	(1,824)	2,522
Contributed investment securities	(340,848)	(327,642)
Realized and unrealized gain on sale of securities	(778,800)	(2,952,725)
Discount/amortization of bond premium	(34,625)	(34,584)
Contributions to permanently restricted fund		
Contributions	(175,470)	(1,298,520)
Investment income	(64,523)	(2,452,654)
Change in operating assets and liabilities		
Contributions receivable, net	597,811	833,752
Accounts receivable from Resident Companies	105,663	(185,797)
Facility fee receivable, net of deferred facility fee revenue	280,304	(75,455)
Other receivables	(32,476)	(342,613)
Prepaid and other current assets	340,251	(235,159)
Beneficial interests	(761,880)	(3,485,752)
Accounts payable	(171,039)	232,658
Accrued expenses	(461,687)	203,216
Payable to Resident Companies	73,055	(33,137)
Deferred revenue	(69,167)	(297,844)
Deposits and advances	(25,145)	(58,721)
Liability for pension benefits	1,995,835	173,399
Bond interest payable	(1,417)	(1,367)
	321,356	(4,557,924)
Net cash provided by (used in) operating activities	321,356	(4,557,924)

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015
(with Comparative Totals for the Year Ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from investing activities		
(Increase) decrease in		
Assets held for capital improvement project	\$ (246,725)	\$ (329,841)
Purchase of property and equipment	(146,209)	(167,993)
Proceeds from sale of property and equipment	6,833	1,270
Payments for contract acquisition costs	(473,738)	(199,376)
Repayments from notes	1,001,263	1,001,880
Net sale of investments	<u>2,100,556</u>	<u>1,721,987</u>
Net cash provided by investing activities	<u>2,241,980</u>	<u>2,027,927</u>
Cash flows from financing activities		
Repayment of capital leases	(193,686)	(196,724)
Repayment of bond payable	(425,000)	(410,000)
Permanently restricted fund donation	175,470	1,298,520
Permanently restricted fund investment income	<u>64,523</u>	<u>2,452,654</u>
Net cash (used in) provided by financing activities	<u>(378,693)</u>	<u>3,144,450</u>
Net increase in cash and cash equivalents	2,184,643	614,453
Cash and cash equivalents, beginning of year	<u>5,952,471</u>	<u>5,338,018</u>
Cash and cash equivalents, end of year	<u>\$ 8,137,114</u>	<u>\$ 5,952,471</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 1,219,030</u>	<u>\$ 1,242,447</u>
Supplemental schedule of non-cash investing and financing activities		
Property purchased under capital leases	<u>\$ 59,251</u>	<u>\$ 14,063</u>

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – DESCRIPTION OF OPERATIONS

The Performing Arts Center of Los Angeles County (“PACLAC” or the “Performing Arts Center”) is a nonprofit public benefit corporation organized to encourage and foster the presentation of the arts at the Performing Arts Center complex. The complex includes the Dorothy Chandler Pavilion, the Mark Taper Forum, the Ahmanson Theatre and the Walt Disney Concert Hall (“WDCH”) and is home to the Los Angeles Philharmonic Association, the Center Theatre Group, the Los Angeles Opera Company and the Los Angeles Master Chorale (collectively, the “Resident Companies”). PACLAC manages the Performing Arts Center complex on behalf of the County of Los Angeles, which owns the facilities, presents performances at the complex consisting mainly of dance ensembles and provides arts education services to school children throughout Los Angeles County. In June 2012, PACLAC entered into a three-year agreement with the County of Los Angeles to both maintain and present performances at Grand Park. In July 2014, this agreement was extended by the parties by two years.

The Performing Arts Center also solicits contributions to support its cultural and educational programs, as well as to fund expansion of and improvements to the complex. Several community volunteer groups and the board of directors provide annual financial support to the Performing Arts Center. On December 6, 2014, the complex celebrated its 50th anniversary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with PACLAC’s financial statements for the year ended June 30, 2014, 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
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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 \$4,660,575 in its unrestricted net assets at June 30, 2015. \$7,518,476 pertains to the cumulative loss related to pension obligations, offset by \$2,857,901 cumulative surplus from operating and capital activities.

Revenue Recognition

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

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

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

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

Cash and Cash Equivalents

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are initially recorded at cost if purchased or at fair value at the date of donation if contributed. Subsequent to acquisition, investments are reported at fair value based upon market quotations or, if managed by fund managers, the fair value information provided by them. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period. At June 30, 2015 and 2014, PACLAC's investments mainly consisted of investments in Music Center Foundation ("MCF") funds and money market funds.

Investments Held for Capital Improvement Project

Investments held for capital improvement project include money market funds held by a trustee under the provision of bond indenture agreements to secure payments of principal and interest on the Series 2007 Revenue Bond (see Note 14).

Contributions Receivable

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

Property and Equipment

Under the terms of a sublease agreement with the County of Los Angeles, PACLAC transfers title of buildings, leasehold improvements and certain furniture and equipment upon purchase to the County of Los Angeles. PACLAC expenses these purchases as they are incurred. The aggregate expenditure of such items since the inception of PACLAC and its predecessors through June 30, 2015 and 2014 were \$67,339,983 and \$65,901,342, respectively, including \$1,438,641 and \$1,342,853 of purchases for the years ended June 30, 2015 and 2014, respectively. Property for which PACLAC retains title is recorded at cost and depreciated using the straight-line method over the estimated three- to ten-year useful lives of the related assets.

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY**
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests

Donors have established and funded trusts and endowments that are administered and controlled by organizations other than the Performing Arts Center. Under the terms of these trust/endowment agreements, the Performing Arts Center has the irrevocable right to receive all or a portion of the income earned on the trusts and endowments in perpetuity. The Performing Arts Center recognizes its beneficial interests and the changes in these trusts and endowments as permanently restricted net assets based on the fair value of the assets. Distributions of investment income from these trusts and endowments are included in interest and other investment income in the accompanying statement of activities and reflected as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Works of Art

In conformity with the practice followed by many cultural institutions, art objects purchased by or donated to PACLAC are not included in the statement of financial position. PACLAC's collection consists of art objects that are on exhibition. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed regularly. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the assets used to purchase the items are restricted by donors; contributed collection items are excluded from the financial statements.

Deferred Revenue

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

Bonds Payable

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

Support to Resident Companies

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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 2015 and 2014, the Organization received no donated services.

Services Billing

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

Income Taxes

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

PACLAC has adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 740, “Income Taxes” (“ASC 740”), formerly FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109. ASC 740 clarifies the accounting for uncertainty in income taxes. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2015 and 2014, PACLAC had no material unrecognized/derecognized tax benefits or tax penalties or interest.

The federal income tax returns of PACLAC still open and subject to IRS examination are for the 2012 through 2015 tax years. The state of California income tax returns still open and subject to examination are also for the 2011 through 2015 tax years.

Use of Estimates

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

**THE PERFORMING ARTS CENTER OF
LOS ANGELES COUNTY
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

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

The Performing Arts Center applies the provisions of FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" ("ASC 820"), formerly SFAS No. 157, "Fair Value Measurements." ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

ASC 820 establishes a three-level valuation hierarchy of valuation techniques that is based on observable and unobservable inputs. Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The first two inputs that may be used to measure fair value are considered observable and the last unobservable and include the following:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

At June 30, 2015, PACLAC has financial assets that consist of investments in equity, bonds and fixed income securities, which are measured at fair value using quoted prices for identical assets in an active market. The basis of fair value for PACLAC's investments and investments held for capital improvement project differs depending on the investment type. For certain investments, market value is based on quoted market prices. These are classified within Level 1 of the valuation hierarchy. Some investments are based on unobservable inputs such as net asset value, cash flows, discount rates and alternative investments, which are supported by little or no market activity; these are classified within Level 3 of the fair value hierarchy.

Concentration of Credit Risk

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

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

With respect to pledges and receivables, PACLAC routinely assesses the financial strength of its debtors and believes that the pledges and receivables credit risk exposure is limited.

Financial instruments that potentially subject PACLAC to concentrations of credit risk consist primarily of receivables. PACLAC's ten largest donors accounted for 98% of the contributions receivable at June 30 for both year 2015 and 2014.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, and in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation.

ASU 2014-09 will be effective for annual reporting periods beginning after December 14, 2017, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09.

On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), by one year for all entities. The guidance is effective for public companies with annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance is effective for nonpublic companies with annual reporting periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Earlier application is permitted. Management is in the process of evaluating the impact of this accounting pronouncement.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In August 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about the entity’s ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. PACLAC is currently evaluating the impact of adopting this new standard on its financial statement disclosures.

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). 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 annual periods 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 July 2015, the FASB issued ASU 2015-12 (Part I), Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) and Health and Welfare Benefit Plans (Topic 965): which require fully benefit – responsive investment contracts to be measured at contract value. Those topics also require an adjustment to reconcile contract value to fair value, when these measures differ, on the face of the plan financial statement. Fair value is measured using the requirements in Topic 820, Fair Value Measurement. The amendments in Part I of the update are effective for fiscal years beginning after December 15, 2015. Management is in the process of evaluating the impact of this accounting pronouncement.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, PACLAC uses the market approach. Based on this approach, PACLAC utilizes certain assumptions about the risk or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. Based on the observability of the inputs used in the valuation techniques, PACLAC is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

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NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2015			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ -	\$ 2,047,885	\$ 2,047,885
Long-term investments	-	-	3,632,608	3,632,608
Investments held for capital improvement project	4,989,578	-	16,257,745	21,247,323
Beneficial interests	-	-	30,644,613	30,644,613
Total	<u>\$ 4,989,578</u>	<u>\$ -</u>	<u>\$ 52,582,851</u>	<u>\$ 57,572,429</u>

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

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NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2015			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance, June 30, 2014	\$ 7,055,212	\$ 15,707,829	\$ 29,882,733	\$ 52,645,774
Contributions	11,000	-	697,357	708,357
Distributions	(1,614,603)	-	(1,069,986)	(2,802,485)
Total gains or losses, realized or unrealized	<u>228,884</u>	<u>549,916</u>	<u>1,134,509</u>	<u>2,031,205</u>
Ending balance, June 30, 2015	<u>\$ 5,680,493</u>	<u>\$ 16,257,745</u>	<u>\$ 30,644,613</u>	<u>\$ 52,582,851</u>
	2014			
	Investments			
	Harris Dance/ Harris Reserve/Blue Ribbon	Held for Capital Improvement Project	Beneficial Interest	Total
Beginning balance, June 30, 2013	\$ 7,451,948	\$ 13,709,215	\$ 26,396,981	\$ 47,558,144
Contributions	25,000	-	1,033,097	1,058,097
Distributions	(1,436,860)	-	(1,024,391)	(2,461,251)
Total gains or losses, realized or unrealized	<u>1,015,124</u>	<u>1,998,614</u>	<u>3,477,046</u>	<u>6,490,784</u>
Ending balance, June 30, 2014	<u>\$ 7,055,212</u>	<u>\$ 15,707,829</u>	<u>\$ 29,882,733</u>	<u>\$ 52,645,774</u>

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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, 2015, 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	\$ 30,644,613	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, 2014, the valuation technique used to measure the fair value of the financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Beneficial interests	\$ 29,882,733	Income Approach	Discount rate	1.94%–2.54%

NOTE 4 – NET CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Amounts due		
In less than one year	\$ 1,347,950	\$ 1,459,764
In one to five years	8,209,500	3,186,000
In more than five years	<u>12,275,000</u>	<u>18,000,000</u>
Total gross contributions receivable	21,832,450	22,645,764
Less		
Allowance for doubtful amounts	177,564	162,606
Present value discount	<u>4,981,805</u>	<u>5,197,309</u>
Total contributions receivable, net	16,673,081	17,285,849
Less current portion of contributions receivable, net	<u>1,290,612</u>	<u>1,421,082</u>
Contributions receivable, net of current portion	<u>\$15,382,469</u>	<u>\$15,864,767</u>

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NOTE 5 – INVESTMENTS AND INVESTMENTS HELD FOR CAPITAL IMPROVEMENT PROJECT

Investments consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Short-term investment		
MCF investments	\$ 2,047,885	\$ 3,271,292
Cash and money market	-	156,105
	<u>2,047,885</u>	<u>3,427,397</u>
Long-term investment		
MCF investments	\$ 3,632,608	\$ 3,783,920
Total	<u>\$ 5,680,493</u>	<u>\$ 7,211,317</u>

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

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,259,476	\$ 1,013,078
Money market funds	3,730,102	3,729,775
MCF investments	<u>16,257,745</u>	<u>15,707,829</u>
Total	<u>\$ 21,247,323</u>	<u>\$ 20,450,682</u>

At June 30, 2015 and 2014, \$1,711,530 of the investments held for capital improvement project were remaining proceeds from the California Infrastructure and Economic Development Bank Revenue Bond issuance. The balances were held in trust funds in accordance with the provision of the bond agreement (see Note 14).

The following tables summarize PACLAC's MCF investments at June 30, 2015 and 2014, which are valued using the fair value practical expedient of net asset value in accordance with ASC 820.

	<u>2015</u>	<u>2014</u>
Investments	\$ 5,680,493	\$ 7,055,212
Investments held for capital improvements	<u>16,257,745</u>	<u>15,707,829</u>
Total	<u>\$ 21,938,238</u>	<u>\$ 22,763,041</u>

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

	2015			
	Fair Value	Unfunded Redemption Commitments	Redemption Frequency	Redemption Notice Period
MCF investments				
MCF unitized fund ^(a)	\$ 19,932,369	\$ -	daily to annually	90–120 days
MCF partnership interest and other funds ^(b)	1,861,519	592,030	when partnership ceases	n/a
MCF cash	<u>144,350</u>	<u>-</u>		
Total MCF investments	<u>\$ 21,938,238</u>	<u>\$ 592,030</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.

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

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**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 25% and 23% of this fund includes investments in equity funds mirroring S&P 500 sector weighting by June 30, 2015 and 2014, 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 16% of this fund includes investments in international (non-U.S.) equity funds by June 30, 2015 and 2014. 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 15% and 20% of this fund includes investments in emerging market equity funds by June 30, 2015 and 2014, 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.

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

Approximately 11% and 8% of this fund includes investments in long-term and short-term equity-focused hedge funds by June 30, 2015 and 2014, 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.

Approximately 3% and 4% of this fund includes investments in a commodity index fund backed by inflation-indexed bonds and long-term and short-term global natural resources securities, commodities and real assets funds by June 30, 2015 and 2014, 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 20% and 17% of this fund includes investments in absolute return funds and emerging market long- and short-term funds by June 30, 2015 and 2014, 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 10% and 12% of this fund includes investments in high-quality, fixed income funds by June 30, 2015 and 2014, 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.

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

(b) This category includes investments in private equity partnerships, venture capital partnerships, real estate partnerships, distressed debt partnerships, energy sector partnerships and oil and gas partnerships. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. All investments in this category cannot be redeemed other than by liquidation of partnerships over the estimated time period of 2013 through 2023. Restrictions are such that investment must be held until the partnership ends or interests are sold on secondary markets.

NOTE 6 – ACCOUNTS RECEIVABLE FROM RESIDENT COMPANIES

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

	<u>2015</u>	<u>2014</u>
Los Angeles Opera	\$ 388,039	\$ 621,753
Center Theatre Group	382,493	275,095
Los Angeles Master Chorale Association	6,824	10,827
Los Angeles Philharmonic Association	<u>45,770</u>	<u>21,114</u>
Total	<u>\$ 823,126</u>	<u>\$ 928,789</u>

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NOTE 7 – OTHER RECEIVABLES

Other receivables consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Education Division	\$ 160,234	\$ 135,598
Founders' members	51,176	72,558
Patina Group	223,456	360,639
Music Center Foundation	34,168	33,115
Los Angeles County	61,892	155,603
California Philharmonic Orchestra	50,407	52,575
Jason Michael Paul Productions	174,338	-
Lawyers in Concert	38,994	27,339
KKJZ Fundraising Inc	51,946	49,535
City of Los Angeles	74,747	11,111
Other	<u>130,584</u>	<u>121,393</u>
Total	<u>\$ 1,051,942</u>	<u>\$1,019,466</u>

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NOTE 8 – NOTES RECEIVABLE

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

On January 19, 2012, PACLAC and Los Angeles Opera entered into an amendment to the Note which extended the maturity date and provides for annual payments of \$1,000,000 on January 31, 2013, 2014 and 2015. On January 28, 2015, PACLAC and Los Angeles Opera entered into an amendment to the note which extended the maturity date and provides for the remaining payment of \$1,000,000 to be made for \$250,000 by January 30, 2015 and for \$750,000 by April 30, 2015. The Los Angeles Opera made both payments and the Note was paid in full. Interest earned on this Note for the years ended June 30, 2015 and 2014 amounted to \$36,233 and \$74,416, respectively.

At June 30, 2015 and 2014, the remaining balances of Notes receivable were \$21,550 and \$22,813, respectively.

NOTE 9 – FACILITY FEES

PACLAC, on behalf of Los Angeles County, collects a County Facility Fee charged on ticket sales at each of the Performing Arts Center venues pursuant to various arrangements, including Resident Companies Subleases. PACLAC also acts on behalf of the County in disbursing such fees for various improvements to or at those venues. New agreements were entered into in 2006 to continue with such arrangement retroactively. PACLAC defers facility fees at the time of ticket sales and recognizes them as revenue only when the improvement disbursement has occurred. At June 30, 2015, the County Facility Fee receivable and deferred revenues were \$187,442 and \$2,158,607, respectively, reflecting Resident Companies’ payments of County Facility Fees.

At June 30, 2014, the County Facility Fee receivable and deferred revenues were \$115,970 and \$1,806,831, respectively. For the years ended June 30, 2015 and 2014, PACLAC recognized \$2,816,645 and \$3,102,651, respectively, as “County Facility Fee income.” County Facility Fee income for the years ended June 30, 2015 and 2014 have been included within Facility Fees, Mark Taper Forum and Other Capital Improvements on the statement of activities.

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

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

During the fiscal year 2010, RA Music, Inc. exercised the first option and paid \$200,000 to the Performing Arts Center to extend the length of the agreement for an additional five years to 2015. During fiscal year 2013, RA Music, Inc. exercised the second option to extend the length of the Agreement for a further five years to 2020 and was required to pay PACLAC \$1,000,000 on or before August 15, 2014 (“Renewal Requirement”).

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

During fiscal year 2014, Improvement Expenditures totaled \$158,948, and the Renewal Requirement balance due by June 30, 2014 was \$757,886. In August 2014, RA Music, Inc. paid PACLAC the balance due under the Renewal Requirement.

The agreement also provides various termination conditions, one of which allows either party to end the agreement without cause after the twelfth 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 fiscal year 2004, with the opening of the related food service facilities, these amounts are being recognized ratably as restaurant income over the 17-year life of the agreement.

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

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

	<u>2015</u>	<u>2014</u>
Deferred restaurant revenue, current portion	\$ 612,804	\$ 488,220
Deferred restaurant revenue, long-term portion	<u>2,553,350</u>	<u>2,522,470</u>
Total	<u>\$ 3,166,154</u>	<u>\$ 3,010,690</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 fiscal year 2004.

PACLAC recognized approximately \$602,422 and \$483,228 as restaurant income related to the construction contribution during fiscal years 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Contract acquisition costs	\$ 17,517,582	\$ 17,043,845
Less accumulated amortization	<u>11,708,492</u>	<u>10,612,135</u>
Contract acquisition costs, net	<u>\$ 5,809,090</u>	<u>\$ 6,431,710</u>

Amortization expense was approximately \$1,096,358 and \$1,032,703 during fiscal years 2015 and 2014, respectively.

PACLAC recognized \$1,314,532 and \$1,223,766 in license fees for food service operations from RA Music, Inc. for the years ended June 30, 2015 and 2014, respectively. License fees for food service operations were recorded under Center Operations, Rents, on the Statement of Activities.

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NOTE 11 – NET PROPERTY AND EQUIPMENT

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

	2015	2014
Furniture, phone and office equipment	\$ 1,226,830	\$ 1,425,270
Computer equipment	1,310,479	1,258,091
Automotive equipment	6,486	6,486
	2,543,795	2,689,847
Less accumulated depreciation and amortization	1,898,527	1,949,924
Property and equipment, net	\$ 645,268	\$ 739,923

Depreciation expense amounted to \$295,106 and \$266,218 for the years ended June 30, 2015 and 2014, respectively.

NOTE 12 – BENEFICIAL INTERESTS

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

	2015	2014
Split-interest agreements – Harris Trust and Maiorani Trust	\$ 3,497,628	\$ 3,704,975
Music Center Foundation	27,146,985	26,177,758
Total	\$ 30,644,613	\$ 29,882,733

The majority of the split interests represent PACLAC's 6.25% interest in the Harris Trust, which is invested in marketable investments held by a trustee. The first 75% of the trust fund is being distributed to the beneficiaries at a rate of 5% per year in the ten-year period starting fiscal year 2006. The remaining 25% of the trust fund, to be allocated at the discretion of the board of directors of the Harris Trust, is expected to be distributed in the same manner as the first 75% of the fund.

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

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NOTE 13 – ACCRUED EXPENSES

Accrued expenses consisted of the following at June 30:

	2015	2014
Accrued compensation, vacation and benefit plans	\$ 1,726,191	\$ 2,108,001
Agency liabilities	-	50,000
Other	112,810	142,687
Total accrued expenses	<u>\$ 1,839,001</u>	<u>\$ 2,300,688</u>

NOTE 14 – LONG-TERM DEBTS

Bonds Payable

In May 2007, the California Infrastructure and Economic Development Bank issued the California Infrastructure and Economic Development Bank Revenue Bonds (Performing Arts Center of Los Angeles County Series 2007) (the “Bonds”) with a total borrowing of \$27,530,000 on behalf of PACLAC. The purpose of issuing the 2007 Revenue Bonds was to finance the Mark Taper Forum capital improvement project. The Bonds consist of serial and term bonds that mature from December 1, 2009 to December 1, 2042.

The Bonds were issued at a net premium of \$943,809. Bonds issuance costs incurred amounted to \$834,021, which are amortized over the term of the Bonds. The net Bonds payable at June 30, 2015 reflects the gross Bonds payable plus premium less bond issuance costs. The amortization of the Bonds’ premium costs were \$34,625 and \$34,584 during the years ended June 30, 2015 and 2014, respectively. The amortization of the Bonds’ issuance costs was \$32,448 and \$32,890 during the years ended June 30, 2015 and 2014, respectively.

Interest rates on the Bonds are as follows:

<u>Bonds Payable</u>	<u>Interest Rate</u>
\$ 905,000	4.00%
480,000	4.13%
500,000	4.20%
525,000	4.25%
545,000	4.30%
570,000	4.38%
<u>21,680,000</u>	5.00%
<u>\$ 25,205,000</u>	

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NOTE 14 – LONG-TERM DEBTS (Continued)

Interest expense during the years ended June 30, 2015 and 2014 was \$1,238,768 and \$1,255,518, respectively. Interest expense was included in Capital improvements expense, Mark Taper Forum in the statement of activities.

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

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

	<u>2015</u>	<u>2014</u>
Total cash and money market	<u>\$ 1,711,530</u>	<u>\$ 1,711,530</u>

Capital Leases Obligation

At June 30, 2015, Property costs include \$1,054,343 of copier, mailroom and telephone equipment under leases that have been capitalized and expire in fiscal year 2016, 2017, 2018, 2019 and 2020. Accumulated depreciation for such equipment was \$721,406 at June 30, 2015.

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

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NOTE 14 – LONG-TERM DEBTS (Continued)

Capital Leases Obligation (Continued)

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>
2016	\$ 193,576	445,000
2017	114,129	460,000
2018	20,758	480,000
2019	15,406	500,000
2020–2024	6,331	2,865,000
2025–2029	-	3,660,000
2030–2034	-	4,700,000
2035–2039	-	6,040,000
2039–2043	-	<u>6,055,000</u>
 Total	 350,200	 25,205,000
Add Unamortized bond premium, net	-	654,324
Less Unamortized bond issuance costs	-	559,984
Less Current maturities	<u>193,576</u>	<u>445,000</u>
 Total Long-term debt	 <u>\$ 156,624</u>	 <u>\$ 24,854,340</u>

NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Dance Fund	\$ 3,081,343	\$ 3,222,437
Active Arts	210,000	320,000
Founders	509,000	396,200
Blue Ribbon	586,265	585,582
Capital	1,007,613	12,000
Other funds	1,380,816	1,147,345
For periods after June 30	<u>9,423,747</u>	<u>9,442,256</u>
 Total temporarily restricted net assets	 <u>\$ 16,198,784</u>	 <u>\$ 15,125,820</u>

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NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of the following:

	2015	2014
Beneficial interests in perpetual trust at Music Center Foundation	\$ 20,680,233	\$ 20,433,400
Other institutions	3,497,628	3,704,975
Pledges receivable to be placed into perpetual trust at the Music Center Foundation	6,466,751	5,744,357
Pledge receivable held by PACLAC	7,090,447	7,612,334
Total	\$ 37,735,059	\$ 37,495,066

PACLAC has been advised that beneficial interests in perpetual trusts are not subject to UPMIFA and are therefore not subject to the disclosure requirements of FSP 117-1 (now in the FASB codification at ASC 958-205-45/50). 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.

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NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

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

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

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

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

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

	2015	2014
Education division	\$ 10,451,720	\$ 10,343,243
Children's festival	7,449,179	7,375,513
Spotlight program	1,671,575	1,315,365
Dance presentations	10,190,454	10,511,166
Other programs	7,972,131	7,949,779
Total permanently restricted net assets	<u>\$ 37,735,059</u>	<u>\$ 37,495,066</u>

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NOTE 16 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy (Continued)
Changes in permanently restricted net assets for the year ended June 30, 2015 are as follows:

	Permanently Restricted
Balance, beginning of year	\$ 37,495,066
Investment income	1,134,509
Contributions	175,470
Distributions	<u>(1,069,986)</u>
Balance, end of year	<u>\$ 37,735,059</u>

NOTE 17 – CHANGES IN UNRESTRICTED NET ASSETS

Changes in unrestricted net assets consisted of the following for the year ended June 30, 2015:

	Total Revenue	Total Expenses	Net
Center/Park operations	\$ 39,634,378	\$ 39,622,541	\$ 11,837
Presenting/programming	8,904,451	8,904,451	-
Education/Spotlight	3,730,518	3,730,518	-
Founders	1,432,695	1,432,695	-
Resident Company allocations	1,152,767	1,152,767	-
Other	<u>2,685,829</u>	<u>3,293,124</u>	<u>(607,295)</u>
Total operating activities	<u>57,540,638</u>	<u>58,136,096</u>	<u>(595,458)</u>
Mark Taper Forum	905,389	1,249,009	(343,620)
Annex	184,978	184,978	-
Restaurants	602,422	720,383	(117,961)
Other	<u>565,153</u>	<u>(58,677)</u>	<u>623,830</u>
Total capital activities	2,257,942	2,095,693	162,249
Other comprehensive loss	<u>-</u>	<u>2,171,281</u>	<u>(2,171,281)</u>
Grand total	<u>\$ 59,798,580</u>	<u>\$ 62,403,070</u>	<u>\$ (2,604,490)</u>

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NOTE 17 – CHANGES IN UNRESTRICTED NET ASSETS (Continued)

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. For the year ended June 30, 2015, the undesignated contributions were insufficient to offset these expenses, resulting in a deficit in Other Operating Activities.

NOTE 18 – RETIREMENT PLANS

Defined Pension Plan

The Performing Arts Center sponsors a defined benefit pension plan (the “Plan”). Effective on June 30, 2009, the board decided to freeze the defined benefit plan. Benefits are based on years of service and employees’ annual compensation.

The following sets forth the components of net periodic benefit cost and the obligations and funded status of the defined benefit plan. Valuations of assets and liabilities are determined using a measurement date of June 30, 2015.

Defined Pension Plan (Continued)

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

	2015	2014
Service cost	\$ 26,025	\$ 26,150
Interest cost	860,387	877,948
Expected return on plan assets	(1,164,189)	(1,052,010)
Recognized actuarial loss	102,331	98,369
Net periodic (benefit)	\$ (175,446)	(49,543)

Obligation status was as follows at June 30:

	2015	2014
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 21,432,168	\$ 19,498,749
Service cost	26,025	26,150
Interest cost	860,387	877,948
Assumption change loss	1,338,642	1,452,970
Actuarial loss	190,976	221,284
Estimated administrative expense	(25,000)	(25,000)
Benefits paid	(687,215)	(619,933)
Benefit obligation, end of year	\$23,135,983	\$ 21,432,168

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Funded status was as follows at June 30:

	2015	2014
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 18,357,723	\$ 16,597,703
Actual return on plan assets	529,358	2,499,934
Employer contributions	-	-
Actual administrative expenses and benefits paid	(821,378)	(739,914)
Fair value of plan assets, end of year	\$ 18,065,703	\$ 18,357,723
Funded status	\$ (5,070,280)	\$ (3,074,445)

During the year ended June 30, 2015, PACLAC also recorded the actuarial loss as an adjustment to net assets.

The following represents pension costs directly charged to net assets:

	2015	2014
Accumulated net adjustment to net assets, beginning of year	\$ (5,347,195)	\$ (5,124,253)
Current year change		
Actuarial gain (loss) during the year	(2,273,612)	(321,311)
Amortization of net gain	102,331	98,369
	(2,171,281)	(222,942)
Accumulated net adjustment to net assets, end of year	\$ (7,518,476)	\$ (5,347,195)

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.

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Investment Policy (Continued)

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

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 – 2014 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 (4.3%).

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

	2015	2014
Discount rate	4.30%	4.10%
Expected long-term rate of return on assets	6.00%	6.50%

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Assumptions (Continued)

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

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

Plan Assets Investment Valuation and Income Recognition

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

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

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

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

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

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Plan’s assets at fair value as of June 30, 2015:

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 399,851	\$ -	\$ -	\$ 399,851
Fixed income	9,557,982	-	-	9,557,982
Common stocks	6,797,284	13,754	20,846	6,831,884
Real estate investment trust	660,217	-	-	660,217
Commodities	615,769	-	-	615,769
Total	\$ 18,031,103	\$ 13,754	\$ 20,846	\$ 18,065,703

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2014:

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

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

	2015	2014
Asset category		
Cash equivalents	2.2%	2.4%
Fixed income	52.9%	53.9%
Common stocks	37.8%	35.7%
Real estate	3.7%	5.1%
Commodities	3.4%	2.9%
Total	<u>100.0%</u>	<u>100.0%</u>

The Performing Arts Center did not contribute to the defined benefit plan for the fiscal years ended June 30, 2015 and 2014.

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NOTE 18 – RETIREMENT PLANS (Continued)

Defined Pension Plan (Continued)

Plan Assets Investment Valuation and Income Recognition (Continued)

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

Years Ending <u>June 30,</u>	
2016	\$ 849,554
2017	909,179
2018	991,599
2019	1,059,896
2020	1,115,744
2021–2025	<u>5,692,335</u>
Total	<u>\$10,618,307</u>

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 \$375,026 and \$394,265 in 2015 and 2014, respectively.

Pension Liability

Certain employees of PACLAC are covered by union-sponsored, collectively bargained, multiemployer pension and welfare plans. The plans are “underwater” as of June 30, 2015; however the plans have not specified any amounts and PACLAC is not able to determine its allocated portion of the unfunded vested liability, if any, under these plans. According to the accounting policies generally accepted in the United States of America, no liability is required to be recorded by a participant in an underwater multi-employer premium plan, except when a participant withdraws from such plan.

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NOTE 18 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status/Pending/Implemented
		2015	2014	
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 8/31/2014	Green as of 8/31/2013	No
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	36-6052390/001	Green	Green	No
American Federation of Musicians and Employers Pension Fund	51-6120204/001	Red	Red	RP Implemented

Pension Fund	Contributions of PACLAC		Surcharge Imposed	Expiration Date of Bargaining Agreement
	2015	2014		
I.A.T.S.E. Local 33 Trust Fund	426,830	393,350	N/A	12/31/2017 ^(a)
League – ATPAM Pension Fund	38,300	37,194	N/A	9/1/2019
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	205,703	218,808	N/A	10/31/2016 ^(b)
American Federation of Musicians and Employers Pension Fund	44,113	40,257	No	8/31/2016 ^(c)

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

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NOTE 18 – RETIREMENT PLANS (Continued)

Pension Liability (Continued)

- (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 sixty days prior to November 1, 2016, 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 19 – PROPERTY MANAGEMENT

PACLAC leases office space to certain sub-licensees on a short-term basis under the operating sublease agreement with the County of Los Angeles. For the years ended June 30, 2015 and 2014, rental income from these leases was \$407,640. The rental income from the sublease agreements was presented in Center operations, rents.

NOTE 20 – CAPITAL PROJECTS

During the year ended June 30, 2015, PACLAC received \$478,377 of additional funding from the County of Los Angeles for capital purposes. During the year ended June 30, 2014, PACLAC received \$413,030 in additional funding from the County of Los Angeles for capital purposes. Additional funding received from the County of Los Angeles is reported as Center Operations or Capital Improvements on the statement of activities, or Deferred Revenue on the statement of financial position, depending on the timing of the program the funding is related to. PACLAC also received \$1,180,000 from the Center Theatre Group for capital projects, recorded as Public support on the statement of activities.

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June 30, 2015**

NOTE 21 – FOUNDERS ROOMS OPERATIONS

Earned income from and expenses related to the operation of the Founders Rooms were \$909,696 and \$1,265,809, respectively, during fiscal year 2015 and are reflected as components of education and outreach revenue and education and outreach expenses, respectively, in the accompanying statement of activities. In addition, during fiscal year 2015, PACLAC received a total of \$929,407 in contributions from Founders members, of which \$420,407 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 \$509,000 was recorded as restricted contributions as this relates to fiscal year 2016 operations support. A total of \$396,200 in contributions received and restricted in fiscal year 2014 was released in fiscal year 2015.

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

**THE PERFORMING ARTS CENTER OF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 22 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

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

Fiscal Years Ending <u>June 30,</u>	
2016	\$ 500,000
2017	600,000
2018	600,000
2019	600,000
2020	<u>600,000</u>
Total	<u>\$ 2,900,000</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 his base compensation, which is determined in good faith by the Board Chair with Executive Committee agreement.

In fiscal year 2015, there are three and in fiscal year 2014, there were six key executive employees who are participants in the Supplemental Savings Plan, the deferral amount of which is determined in accordance with Section 457(e)(15) code of the Internal Revenue Service. Total deferred compensation related to the Supplemental Savings Plan was \$134,592 and \$332,891 at June 30, 2015 and 2014, respectively, and was reflected as an accrued expense in this financial statement.

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NOTE 22 – COMMITMENTS AND CONTINGENCIES (Continued)

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 23 – RELATED PARTY TRANSACTIONS

Contributions and pledges received from the board of directors totaled \$1,293,694 and \$1,936,751 for the fiscal year 2015 and 2014 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 24 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 29, 2015, which is the date the financial statements were issued or available to be issued.