



THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

Combined Financial Statements

June 30, 2014

(With Summarized Comparative Information for the Year Ended June 30, 2013)

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Los Angeles Chamber Orchestra Society, Inc. and Affiliate

We have audited the accompanying combined financial statements of The Los Angeles Chamber Orchestra Society, Inc. and Affiliate (a non-profit organization) (LACO), which comprise the combined statement of financial position as of June 30, 2014, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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


INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of LACO as of June 30, 2014, and the changes in their net assets and their 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 LACO's 2013 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated March 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.



February 17, 2015

Kushner, Smith, Joanou, and Gregson, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

Combined Statement of Financial Position

June 30, 2014

(with summarized financial information as of June 30, 2013)

<u>ASSETS</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2014	2013
Cash and cash equivalents:					
Cash	\$ 116,695	\$ 144,353	\$ 22,802	\$ 283,850	\$ 684,986
Reserve - restricted	--	--	125,000	125,000	125,000
Total cash and cash equivalents	<u>116,695</u>	<u>144,353</u>	<u>147,802</u>	<u>408,850</u>	<u>809,986</u>
Investments (Note 2)	1,195,234	1,057,839	1,630,518	3,883,591	2,806,418
Grants and contributions receivable, net (Notes 2 and 3)	263,155	609,349	--	872,504	1,783,536
Prepaid expenses and other current assets	38,173	--	--	38,173	55,276
Property and equipment, net (Note 4)	<u>7,294</u>	<u>--</u>	<u>--</u>	<u>7,294</u>	<u>9,615</u>
 Total assets	 <u>\$ 1,620,551</u>	 <u>\$ 1,811,541</u>	 <u>\$ 1,778,320</u>	 <u>\$ 5,210,412</u>	 <u>\$ 5,464,831</u>
 <u>LIABILITIES AND NET ASSETS</u>					
Liabilities:					
Accounts payable	36,052	--	--	36,052	79,256
Advance ticket sales	528,644	--	--	528,644	424,137
Accrued expenses	<u>84,955</u>	<u>--</u>	<u>--</u>	<u>84,955</u>	<u>41,219</u>
Total liabilities	<u>649,651</u>	<u>--</u>	<u>--</u>	<u>649,651</u>	<u>544,612</u>
Commitments (Note 8)					
Net assets:					
Unrestricted (Note 5)	970,900	--	--	970,900	916,084
Temporarily restricted (Note 5)	--	1,811,541	--	1,811,541	2,231,519
Permanently restricted (Note 5)	<u>--</u>	<u>--</u>	<u>1,778,320</u>	<u>1,778,320</u>	<u>1,772,616</u>
Total net assets	<u>970,900</u>	<u>1,811,541</u>	<u>1,778,320</u>	<u>4,560,761</u>	<u>4,920,219</u>
 Total liabilities and net assets	 <u>\$ 1,620,551</u>	 <u>\$ 1,811,541</u>	 <u>\$ 1,778,320</u>	 <u>\$ 5,210,412</u>	 <u>\$ 5,464,831</u>

See accompanying notes to combined financial statements

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Combined Statement of Activities
Year Ended June 30, 2014**

(with summarized financial information for the year ended June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
Operating revenue:					
Musical performance:					
Concert ticket sales	\$ 843,516	\$ --	\$ --	\$ 843,516	\$ 944,339
Outside concerts - contracted services	16,250	--	--	16,250	72,000
Total musical performance	<u>859,766</u>	<u>--</u>	<u>--</u>	<u>859,766</u>	<u>1,016,339</u>
Gift shop sales, ticket handling, and other revenues	<u>38,977</u>	<u>--</u>	<u>--</u>	<u>38,977</u>	<u>37,010</u>
Total operating revenue	<u>898,743</u>	<u>--</u>	<u>--</u>	<u>898,743</u>	<u>1,053,349</u>
Operating expenses:					
Program services	2,988,673	--	--	2,988,673	2,798,715
Management and general	<u>392,272</u>	<u>14,623</u>	<u>--</u>	<u>406,895</u>	<u>335,598</u>
Total operating expenses	<u>3,380,945</u>	<u>14,623</u>	<u>--</u>	<u>3,395,568</u>	<u>3,134,313</u>
Change in net assets from operating activities	<u>(2,482,202)</u>	<u>(14,623)</u>	<u>--</u>	<u>(2,496,825)</u>	<u>(2,080,964)</u>
Non-operating activities:					
Grants and contributions	1,319,102	119,004	5,000	1,443,106	3,582,419
Donated materials, services, and facilities	61,342	--	--	61,342	53,123
Fundraising events, net of direct costs of \$369,467 and \$297,656, respectively	592,040	--	--	592,040	337,188
Development costs	(470,215)	--	--	(470,215)	(393,956)
Interest and dividend income	17,978	54,549	--	72,527	70,868
Realized and unrealized gain (loss) on investments, net	55,617	382,246	704	438,567	256,348
Net assets released from restrictions	<u>961,154</u>	<u>(961,154)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Change in net assets from non-operating activities	<u>2,537,018</u>	<u>(405,355)</u>	<u>5,704</u>	<u>2,137,367</u>	<u>3,905,990</u>
Change in net assets	54,816	(419,978)	5,704	(359,458)	1,825,026
Net assets at beginning of year	<u>916,084</u>	<u>2,231,519</u>	<u>1,772,616</u>	<u>4,920,219</u>	<u>3,095,193</u>
Net assets at end of year	<u>\$ 970,900</u>	<u>\$ 1,811,541</u>	<u>\$ 1,778,320</u>	<u>\$ 4,560,761</u>	<u>\$ 4,920,219</u>

See accompanying notes to combined financial statements

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Combined Statement of Functional Expenses
Year ended June 30, 2014**

(with summarized financial information for the year ended June 30, 2013)

	Program Services			Supporting Services			Totals	
	Concerts and Recordings	Promotion	Subtotal	Management & General	Development	Subtotal	2014	2013
Salaries and related expenses:								
Staff	\$ 127,505	\$ 169,801	\$ 297,306	\$ 172,115	\$ 352,136	\$ 524,251	\$ 821,557	\$ 733,208
Musicians	906,100	--	906,100	--	--	--	906,100	820,577
Guest artists	211,849	--	211,849	--	--	--	211,849	167,081
Payroll taxes	65,614	11,884	77,498	11,099	26,274	37,373	114,871	105,672
Employee benefits	177,159	14,427	191,586	11,494	18,112	29,606	221,192	194,032
Total salaries and related expenses	1,488,227	196,112	1,684,339	194,708	396,522	591,230	2,275,569	2,020,570
Other expenses:								
Accounting and auditing	--	--	--	17,160	--	17,160	17,160	22,042
Advertising	--	350,292	350,292	360	--	360	350,652	309,165
Auditions	6,689	--	6,689	--	--	--	6,689	--
Bank charges	--	--	--	17,763	--	17,763	17,763	13,183
Board expenses	--	--	--	4,413	--	4,413	4,413	10,523
Conferences and seminars	694	1,103	1,797	7,467	--	7,467	9,264	10,133
Credit card and ticket sale fees	--	28,689	28,689	--	--	--	28,689	28,079
Depreciation	--	--	--	4,899	--	4,899	4,899	5,675
Donor benefits	--	--	--	--	29,679	29,679	29,679	21,687
Dues and subscriptions	--	--	--	7,647	--	7,647	7,647	7,962
Equipment repairs and maintenance	--	--	--	21,772	--	21,772	21,772	31,145
Hall rental and stage hands	378,780	--	378,780	--	--	--	378,780	361,888
Instrument rental and cartage	63,534	--	63,534	--	--	--	63,534	43,743
Insurance	--	--	--	17,775	--	17,775	17,775	15,664
Miscellaneous	3,992	508	4,500	6,581	1,424	8,005	12,505	19,853
Music - composer commissions	17,000	--	17,000	--	6,595	6,595	23,595	7,961
Music - rental and reproduction	60,681	--	60,681	--	--	--	60,681	58,194
Occupancy	19,239	26,935	46,174	11,543	19,239	30,782	76,956	83,370
Payroll service charges	1,214	--	1,214	5,635	--	5,635	6,849	6,276
Postage and shipping	1,018	26,283	27,301	2,947	3,261	6,208	33,509	45,591
Printing	41,315	82,998	124,313	7,301	7,624	14,925	139,238	140,485
Public relations	--	--	--	4,265	--	4,265	4,265	--
Outside services	--	101,235	101,235	43,128	--	43,128	144,363	134,891
Repairs and maintenance	--	--	--	2,051	--	2,051	2,051	--
Royalties, licenses and fees	16,617	--	16,617	909	--	909	17,526	28,172
Supplies	10,474	438	10,912	6,574	--	6,574	17,486	16,915
Telephone	3,363	6,725	10,088	3,363	3,363	6,726	16,814	16,670
Travel and parking	54,518	--	54,518	18,634	2,508	21,142	75,660	68,432
Total other expenses	679,128	625,206	1,304,334	212,187	73,693	285,880	1,590,214	1,507,699
Total expenses	\$ 2,167,355	\$ 821,318	\$ 2,988,673	\$ 406,895	\$ 470,215	\$ 877,110	\$ 3,865,783	\$ 3,528,269

See accompanying notes to combined financial statements

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Combined Statements of Cash Flows
Year Ended June 30, 2014**

(with summarized financial information for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (359,458)	\$ 1,825,026
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,899	5,675
Realized and unrealized (gain) on investments	(438,567)	(256,348)
(Increase) decrease in:		
Grants and contributions receivable	929,447	(1,476,746)
Allowance for doubtful receivables	(18,415)	--
Prepaid expenses and other current assets	17,103	26,464
Increase (decrease) in:		
Accounts payable	(43,204)	(9,215)
Advance ticket sales	104,507	25,507
Accrued expenses	43,736	(10,536)
Net cash provided by operating activities	<u>240,048</u>	<u>129,827</u>
Cash flows from investing activities:		
Purchases of investments	(648,948)	(47,376)
Proceeds from sale of investments	10,342	8,878
Purchases of property and equipment	<u>(2,578)</u>	<u>(1,182)</u>
Net cash (used in) investing activities	<u>(641,184)</u>	<u>(39,680)</u>
 Net (decrease) increase in cash and cash equivalents	 (401,136)	 90,147
Cash and cash equivalents:		
Beginning of year	<u>809,986</u>	<u>719,839</u>
End of year	<u>\$ 408,850</u>	<u>\$ 809,986</u>

See accompanying notes to combined financial statements

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Los Angeles Chamber Orchestra Society, Inc. and Affiliate (LACO) is a non-profit corporation that consists of the Los Angeles Chamber Orchestra and the Los Angeles Chamber Orchestra Foundation (Founders Endowment).

LACO, which receives a significant amount of its revenue from contracts and grants awarded by foundations and corporations (and a minor share from local and federal government agencies) as well as through individual contributions and ticket sales, is a professional orchestra dedicated to performing concerts of music from the chamber orchestra repertoire. Performances include various self-presented series and events in greater Los Angeles, as well as appearances contracted by presenting organizations throughout Southern California and in conjunction with national and international tours.

LACO also provides free and low-cost programs that educate and engage the multi-cultural, multi-generational Greater Los Angeles community. The orchestra's local and national broadcasts (also available internationally through internet streaming and selected podcasts) make its concerts accessible to millions worldwide.

The Founders Endowment was created in 1992 for the purpose of investing two grants and their matching contributions totaling \$400,000. Distributions can only be made from the investment earnings, subject to certain limitations as prescribed in the endowment's investment policy. Other endowments exist within LACO as described in Note 6.

Principles of Combination - The combined financial statements include the accounts of LACO and the Founders Endowment. All inter-entity accounts and transactions have been eliminated in the combination.

Comparative Data - The accompanying combined financial statements include certain prior-year summarized comparative financial information in total, but not by unrestricted, temporarily restricted, on permanently restricted 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 LACO's combined audited financial statements for the year ended June 30, 2013 from which the summarized information was derived.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - The financial statements of LACO have been prepared on the accrual basis of accounting.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LACO and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of LACO.
- *Temporarily Restricted Net Assets* - Net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. LACO's contribution receivables are included in this net asset category until collected and the donor restrictions have been met.
- *Permanently Restricted Net Assets* - Net assets subject to donor-imposed restrictions that require the principal balance to be kept in perpetuity while permitting LACO to use or expend part or all of the income derived from the assets.

LACO records gifts of cash and other assets as temporarily restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as temporarily restricted with the corresponding amount reclassified to unrestricted net assets in the accompanying combined statement of activities.

Endowment monies are identified in the accompanying combined financial statements as both permanently restricted net assets, which include donor-restricted contributions, and as temporarily restricted net assets, which include unspent investment income on endowments and board-designated additions to endowment (Note 5).

Operating activities reflect transactions related to the performance of concerts by the orchestra. Non-operating activities reflect contributed revenue and the related expenses.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents - For purposes of the combined statement of cash flows, LACO considers highly liquid investments and investments with maturities of three months or less to be cash and cash equivalents. LACO places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Cash Reserve Fund - The cash reserve fund was established by a foundation grant that provided cash for operations during the year, as long as the funds were replaced and shown as reserved on the year-end combined financial statements.

Concentration of Credit Risk - LACO maintains a portion of its cash deposits with a high credit quality bank, which may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. LACO has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents. LACO places the balance of its cash and its investments with a large broker-dealer where the assets are fully insured by a private insurer.

Marketable Securities - LACO reports its investments held through institutional mutual funds in all debt securities and in equity securities with readily determinable market values at fair value, using quoted market prices. Investment income from permanently restricted investments is reported as temporarily restricted income unless it is appropriated for expenditure, in which case it is recognized as unrestricted income. Unrealized and realized gains or losses have been recorded as such in the combined statement of activities.

Property and Equipment - Property and equipment includes furniture and equipment, musical instruments, and a musical library and is stated at cost, net of accumulated depreciation. Donated assets are recorded at the estimated fair value on the date received and are recorded as temporarily restricted support and subsequently released from restrictions as such assets are depreciated. Depreciation is computed using the straight-line method over five years, the estimated useful lives of the assets. Major additions, renewals, and betterments are capitalized. Maintenance and repairs are charged to expense as incurred.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of - LACO reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less costs to sell.

Revenue Recognition - Deferred revenue consists of advance ticket sales and deferred programming support pertaining to future concerts. Ticket sales are recorded as revenue when a concert is performed and any related prepaid costs are charged to expense.

Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates commensurate with the risks involved applicable to the years in which the promises are received, which was 1.62% and 1.21% at June 30, 2014 and 2013, respectively. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Contributed Services and Gifts In-Kind - Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Only amounts that meet the criteria above are recorded in the accompanying combined financial statements.

LACO has received donations of various noncash assets, such as rent, catering, or information technology services. During the years ended June 30, 2014 and 2013, there were gift in-kind contributions of \$61,342 and \$53,123, respectively, which were recorded as donated materials, services and facilities income and operating expense in the accompanying combined statements of activities. Gifts in-kind are recorded at estimated fair value at the date of receipt.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes - LACO is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, LACO is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

LACO has adopted the accounting standards relating to accounting and reporting for uncertainty in income taxes. For LACO, these standards could be applicable to the incurrence of any unrelated business income attributable to LACO. Because of LACO's general tax-exempt status, these standards are not anticipated to have a material impact on LACO's combined financial statements.

Vacation Expense - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

Advertising Costs - All advertising costs, which include direct response advertising costs, are expensed by LACO as they are incurred. Total advertising costs for the years ended June 30, 2014 and 2013 were \$350,652 and \$309,165, respectively.

Net Assets - Unrestricted net assets include quasi-endowment accounts. Such accounts primarily represent transactions that LACO's board of directors has designated as income producing investments where the principal is not to be used to support LACO's general activities. Such assets have no donor-imposed restrictions or the restrictions have already expired. Board-designated endowments totaled \$503,483 and \$461,628 at June 30, 2014 and 2013, respectively, and have been included in unrestricted net assets in the accompanying combined statement of financial position (Note 5).

Use of Estimates - The preparation of financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Fair Value Measurements - The carrying value of financial instruments in the combined financial statements approximates fair value.

LACO has adopted the accounting standard for fair value measurements of financial assets and financial liabilities (Note 2), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the combined financial statements on a recurring basis. The accounting standard defines fair value as 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.

The assets that are recorded at fair value on a recurring basis are investments. LACO has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

The accounting standard establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. LACO's Level 1 assets include institutional mutual funds.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. LACO does not hold any Level 2 assets or liabilities.
- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. LACO's Level 3 assets include grants and contributions receivable.

(Note 1 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (Continued) - Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Collective Bargaining Agreement - Employees of LACO performing services as musicians are employed under a collective bargaining agreement which is set to expire in June 2015. Although management has no indication of any work stoppages and believes any would be unlikely, any such labor disruption could cause a severe impact on LACO's operations.

Reclassifications - The summarized financial statements for the year ended June 30, 2013 reflect certain reclassifications, which have no effect on total net assets or changes in net assets, to conform to classifications adopted at June 30, 2014.

Subsequent Events - LACO evaluated subsequent events through February 17, 2015, the date these combined financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these combined financial statements.

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 2 - INVESTMENTS

Investments as of June 30, 2014 and 2013 consist of institutional mutual funds.

The following table sets forth by level, within the fair value hierarchy, LACO's assets at fair value as of June 30, 2014 and 2013:

	<i>Assets at Fair Value as of June 30, 2014</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Investments:				
Mutual funds:				
Alternative funds	\$ 21,803	\$ --	\$ --	\$ 21,803
Balanced funds	648,982	--	--	648,982
Domestic funds	999,081	--	--	999,081
Fixed income funds	1,125,440	--	--	1,125,440
International funds	815,334	--	--	815,334
Sector stock funds	272,951	--	--	272,951
Total investments	<u>3,883,591</u>	<u>--</u>	<u>--</u>	<u>3,883,591</u>
Grants and contributions receivable	<u>--</u>	<u>--</u>	<u>872,504</u>	<u>872,504</u>
Total	<u>\$ 3,883,591</u>	<u>\$ --</u>	<u>\$ 872,504</u>	<u>\$ 4,756,095</u>

	<i>Assets at Fair Value as of June 30, 2013</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Investments:				
Mutual funds:				
Balanced funds	\$ 587,277	\$ --	\$ --	\$ 587,277
Commodity funds	20,682	--	--	20,682
Domestic funds	792,515	--	--	792,515
Fixed income funds	509,276	--	--	509,276
International funds	668,438	--	--	668,438
Sector stock funds	228,230	--	--	228,230
Total investments	<u>2,806,418</u>	<u>--</u>	<u>--</u>	<u>2,806,418</u>
Grants and contributions receivable	<u>--</u>	<u>--</u>	<u>1,783,536</u>	<u>1,783,536</u>
Total	<u>\$ 2,806,418</u>	<u>\$ --</u>	<u>\$ 1,783,536</u>	<u>\$ 4,589,954</u>

(Note 2 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 2 - INVESTMENTS (Continued)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the LACO'S Level 3 assets for the years ended June 30, 2014 and 2013.

	<i>Grants and Contributions Receivable</i>	
	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 1,783,536	\$ 306,790
New grants and contributions	205,665	2,702,065
Payments received	(1,143,881)	(1,186,811)
Change in present value discount amount	<u>27,184</u>	<u>(38,508)</u>
Balance, end of year	<u>\$ 872,504</u>	<u>\$ 1,783,536</u>

During the years ended June 30, 2014 and 2013, investment income consisted of the following:

	<i>Years Ended June 30,</i>	
	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 72,527	\$ 70,868
Investment management expenses	(14,623)	(10,494)
Realized and unrealized gain (loss), net	<u>438,567</u>	<u>256,348</u>
	<u>\$ 496,471</u>	<u>\$ 316,722</u>

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 3 - GRANTS AND CONTRIBUTIONS RECEIVABLE

At June 30, 2014 and 2013, future collections of grants and contributions receivable are scheduled as follows:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 460,078	\$ 596,647
One to five years	423,750	1,240,407
Total pledges	<u>883,828</u>	<u>1,837,054</u>
Less:		
Discount to present value	(11,324)	(38,508)
Allowance for uncollectible grants and contributions	--	(15,010)
	<u>\$ 872,504</u>	<u>\$ 1,783,536</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 79,579	\$ 77,001
Music library	1,020	1,020
	<u>80,599</u>	<u>78,021</u>
Less accumulated depreciation	<u>(73,305)</u>	<u>(68,406)</u>
	<u>\$ 7,294</u>	<u>\$ 9,615</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$4,899 and \$5,675, respectively.

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 5 - NET ASSETS

The following is a summary of LACO's unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2014 and 2013:

Unrestricted

	<u>2014</u>	<u>2013</u>
Undesignated	\$ 20,447	\$ 29,456
Board – designated – operating reserve	446,970	425,000
Board – designated – guest artist endowment	<u>503,483</u>	<u>461,628</u>
	<u>\$ 970,900</u>	<u>\$ 916,084</u>

Temporarily Restricted

	<u>2014</u>	<u>2013</u>
Defined activities	\$ 76,100	\$ 99,922
General operations	<u>1,735,441</u>	<u>2,131,597</u>
	<u>\$ 1,811,541</u>	<u>\$ 2,231,519</u>

Temporarily restricted net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 for the following purposes:

	<u>2014</u>	<u>2013</u>
Concerts, education, and outreach	\$ 393,985	\$ 282,422
General operations	447,083	75,000
Endowment related	<u>120,086</u>	<u>119,000</u>
	<u>\$ 961,154</u>	<u>\$ 476,422</u>

(Note 5 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 5 - NET ASSETS (Continued)

Permanently Restricted

	<u>2014</u>	<u>2013</u>
Endowments:		
Founders endowment	\$ 400,000	\$ 400,000
Colburn endowment	34,688	33,984
Dolan library endowment	9,024	9,024
General endowment	155,530	150,530
Hearst education endowment	200,000	200,000
Troy endowment	41,425	41,425
Zimmer endowment	<u>812,653</u>	<u>812,653</u>
Total endowments	1,653,320	1,647,616
 Irvine Foundation – restricted cash reserves	 <u>125,000</u>	 <u>125,000</u>
	 <u>\$ 1,778,320</u>	 <u>\$ 1,772,616</u>

NOTE 6 - ENDOWMENT

LACO has adopted the accounting standard for Endowments of Not-for-Profit Organizations. A key component of the accounting standard is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Adoption of this standard did not affect the combined financial position or changes in net assets of LACO.

The accounting standard provides guidance with respect to the accounting for donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which the State of California has enacted. In addition, the accounting standard requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the accounting standard, LACO has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar amount of donor-restricted endowment contributions is reported as permanently restricted net assets.

(Note 6 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

Notes to Combined Financial Statements

(Continued)

June 30, 2014 and 2013

NOTE 6 - ENDOWMENT (Continued)

LACO's endowments consist of the funds listed above in Note 5. The Hearst Endowment earnings are restricted for educational expenses and the Dolan Endowment earnings are restricted for library expenses. All of the other Endowment earnings are unrestricted.

Changes in Endowment Net Assets for the Years Ending June 30, 2014 and 2013

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ --	\$ 1,756,530	\$ 1,756,530
Contributions	--	16,086	16,086
Revisions of donor restrictions	278,539	--	278,539
Appropriation of endowment for expenditure	<u>(119,000)</u>	<u>--</u>	<u>(119,000)</u>
Endowment net assets, July 1, 2013	159,539	1,772,616	1,932,155
Contributions	--	5,000	5,000
Investment gain, net	416,721	704	417,425
Appropriation of endowment for expenditure	<u>(120,086)</u>	<u>--</u>	<u>(120,086)</u>
Endowment net assets, July 1, 2014	\$ <u>456,174</u>	\$ <u>1,778,320</u>	\$ <u>2,234,494</u>

(Note 6 continued on the following page)

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013****NOTE 6 - ENDOWMENT (Continued)****Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires LACO to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2014 and 2013.

Return Objectives and Risk Parameters

LACO has adopted investment and spending policies for endowment assets designed to provide continued financial stability for LACO and a revenue stream for spending on LACO's mission. Endowment assets include those assets of donor-restricted funds that LACO must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that provides for safety through diversification while obtaining a reasonable rate of return with the secondary objective to maintain liquidity. LACO estimates its endowment funds over time to provide an average rate of return of approximately 5% annually.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

LACO's investment policy includes an endowment spending rate of 5% of the endowment funds' market value on a rolling three year average. This spending rate constitutes the Board of Director's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the spending of the income of the portfolio while maintaining the principal value of the endowment and the purchasing power of endowment fund assets, and provide a sustainable spending level that will allow for support of LACO's initiatives in fulfilling its mission.

THE LOS ANGELES CHAMBER ORCHESTRA SOCIETY, INC. AND AFFILIATE

**Notes to Combined Financial Statements
(Continued)
June 30, 2014 and 2013**

NOTE 7 - RETIREMENT PLAN

Effective January 1, 2007, LACO adopted a 401(k) Safe Harbor Plan in which employees who completed one year of employment with at least 1,000 hours of service were eligible to participate. Under the 401(k) Safe Harbor Plan, LACO made a 3% safe harbor contribution of eligible employees' income. In 2013, the Plan was amended to eliminate the Safe Harbor provision and allow for matching contributions on a discretionary basis. LACO made no discretionary employer contributions to the Plan during both of the years ended June 30, 2014 and 2013.

NOTE 8 - COMMITMENTS

Operating Leases - LACO leases its operating facility under a noncancelable operating lease agreement, which expires in June 2020. Future minimum lease payments under the operating lease as of June 30, 2014 are as follows:

Years ending June 30:	
2015	\$ 72,829
2016	72,829
2017	81,932
2018	81,932
2019	84,415
Thereafter	<u>84,415</u>
	<u>\$ 478,352</u>

Total rent expense under the operating lease amounted to \$76,956 and \$83,370 for the years ended June 30, 2014 and 2013, respectively.

Grants - Grants require the fulfillment of certain conditions as set forth in the grant agreements. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although nonperformance is a possibility, the Board deems the contingency remote, since by accepting the funds and the accompanying terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.