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LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

LOS ANGELES OPERA COMPANY

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
Los Angeles Opera Company:

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles Opera Company (the Opera), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Opera'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 Opera's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles Opera Company as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Los Angeles, California
November 29, 2016

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents	$	833,072	749,588
Accounts receivable		303,721	417,123
Contributions receivable (note 5)		22,545,816	18,580,130
Contributions receivable from related parties (note 5)		21,843,408	27,800,291
Prepaid production costs		792,451	310,062
Prepaid expenses, deposits, and other assets		1,057,621	1,255,699
Property, plant, and equipment, net (note 6)		799,605	676,980
Beneficial interest in perpetual trust (note 2)		13,576,068	12,815,758
Restricted investments (notes 4 and 10)		17,009,252	15,565,616
	$	78,761,014	78,171,247
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	5,240,213	6,045,016
Deferred ticket sales		6,071,168	6,442,483
Loans payable (note 7)		2,145,000	3,975,000
Loans payable to related parties (note 7)		9,860,220	11,728,698
		23,316,601	28,191,197
Commitments and contingencies (note 7)			
Net assets:			
Unrestricted		(14,181,614)	(19,247,723)
Temporarily restricted (note 9)		29,166,199	34,044,684
Permanently restricted (notes 9 and 10)		40,459,828	35,183,089
Total net assets		55,444,413	49,980,050
	$	78,761,014	78,171,247

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenue and support:								
Earned revenue:								
Ticket sales and fees – opera season	$ 12,826,811	—	—	12,826,811	10,460,331	—	—	10,460,331
Ticket sales and fees – recitals and other performances	1,086,739	—	—	1,086,739	387,174	—	—	387,174
Other earned revenue	473,302	—	—	473,302	615,827	—	—	615,827
Endowment distribution	563,904	—	—	563,904	418,734	—	—	418,734
Change in value of beneficial interest in perpetual trust	—	—	(416,047)	(416,047)	—	—	282,897	282,897
Total earned revenue	14,950,756	—	(416,047)	14,534,709	11,882,066	—	282,897	12,164,963
Support:								
Foundations, corporations, and individuals	17,209,698	4,584,182	6,352,359	28,146,239	13,271,578	5,642,020	1,466,144	20,379,742
Government grants	114,610	21,400		136,010	1,099,867	946,820	—	2,046,687
Donated materials and services	518,498	—	—	518,498	528,013	—	—	528,013
Change in discount to recognize pledges at present value	—	2,484,085	840,427	3,324,512		4,371,489	(159,145)	4,212,344
Change in mortality estimates for long term pledges	—	—	—	—	—	(5,164,984)	(910,601)	(6,075,585)
Net support from foundations, corporations, individuals, and governments	17,842,806	7,089,667	7,192,786	32,125,259	14,899,458	5,795,345	396,398	21,091,201
Special events:								
Revenue	2,718,574	375,537	—	3,094,111	799,794	884,285	—	1,684,079
Net assets released from restriction	984,285	(984,285)	—	—	683,432	(683,432)	—	—
Less costs of direct benefits to donors	(827,914)	—	—	(827,914)	(552,089)	—	—	(552,089)
Net revenue from special events	2,874,945	(608,748)	—	2,266,197	931,137	200,853	—	1,131,990
Total support	20,717,751	6,480,919	7,192,786	34,391,456	15,830,595	5,996,198	396,398	22,223,191
Net assets released from restrictions	10,930,985	(9,430,985)	(1,500,000)	—	14,579,518	(14,579,518)	—	—
Total support and net assets released from restrictions	31,648,736	(2,950,066)	5,692,786	34,391,456	30,410,113	(8,583,320)	396,398	22,223,191
Total revenue and support	46,599,492	(2,950,066)	5,276,739	48,926,165	42,292,179	(8,583,320)	679,295	34,388,154
Expenses:								
Production, performance, and outreach	30,114,063	—	—	30,114,063	32,077,303	—	—	32,077,303
Marketing and public relations	4,343,783	—	—	4,343,783	4,055,283	—	—	4,055,283
Management and general	3,081,278	—	—	3,081,278	3,185,667	—	—	3,185,667
Fund-raising	3,093,081	—	—	3,093,081	2,773,737	—	—	2,773,737
Total expenses	40,632,205	—	—	40,632,205	42,091,990	—	—	42,091,990
Change in net assets from operating activities	5,967,287	(2,950,066)	5,276,739	8,293,960	200,189	(8,583,320)	679,295	(7,703,836)
Other investment income (loss), net	(769,321)	(419,327)	—	(1,188,648)	—	(292,041)	—	(292,041)
Uncollectible contributions receivable	(131,857)	(1,509,092)	—	(1,640,949)	(91,099)	—	—	(91,099)
Change in net assets	5,066,109	(4,878,485)	5,276,739	5,464,363	109,090	(8,875,361)	679,295	(8,086,976)
Net assets at the beginning of the year	(19,247,723)	34,044,684	35,183,089	49,980,050	(19,356,813)	42,920,045	34,503,794	58,067,026
Net assets at the end of the year	$ (14,181,614)	29,166,199	40,459,828	55,444,413	(19,247,723)	34,044,684	35,183,089	49,980,050

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	5,464,363	(8,086,976)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization of property, plant, and equipment		188,683	304,141
Change in value of beneficial interest in perpetual trust		128,137	(547,882)
Unrealized and realized loss (gain) on investments, net		553,972	(259,312)
Gain on disposal of property, plant and equipment		(1,514)	(12,919)
Contributions restricted for permanent investment		(2,632,284)	(2,317,777)
Contributions of beneficial interest in perpetual trust		(1,176,357)	(648,367)
Uncollectible accounts receivable		—	1,000
Uncollectible contributions receivable		1,640,949	91,099
Forgiveness of loans from related parties		(3,120,000)	(350,000)
Changes in operating assets and liabilities:			
Accounts receivable		113,402	(323,908)
Contributions receivable		(649,756)	6,552,297
Prepaid production costs		(482,389)	229,413
Prepaid expenses and deposits		198,080	(429,388)
Accounts payable and accrued liabilities		(804,803)	323
Deferred ticket sales		(371,315)	515,401
Net cash used in operating activities		(950,832)	(5,282,855)
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(315,094)	(500,206)
Proceeds from the sale of property, plant, and equipment		5,300	12,919
Net cash used in investing activities		(309,794)	(487,287)
Cash flows from financing activities:			
Contributions and earnings restricted for permanent investment		922,588	816,338
Proceeds from loans payable		24,486,522	27,928,000
Repayments of loans payable		(24,065,000)	(22,731,000)
Net cash provided by financing activities		1,344,110	6,013,338
Net increase in cash and cash equivalents		83,484	243,196
Cash and cash equivalents at the beginning of the year		749,588	506,392
Cash and cash equivalents at the end of the year	$	833,072	749,588
Supplemental disclosures of cash flow information:			
Interest paid during the year	$	409,572	401,007
Loan forgiveness to satisfy pledge receivables		(1,000,000)	(1,560,000)

See accompanying notes to financial statements.

(1) Organization

The Los Angeles Opera Company (the Opera) is a nonprofit, tax-exempt entity organized to produce world class opera that preserves, promotes, and advances the art form while embodying the diversity, pioneering spirit, and artistic sensibility unique to Los Angeles. The Opera is a resident company of the Performing Arts Center of Los Angeles County.

(2) Summary of Significant Accounting Policies

(a) Reclassifications

Certain reclassifications have been made to the 2015 financial data to conform to the 2016 presentation.

(b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Net assets of the Opera 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 the Opera.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations or law that may or will be met by either the actions of the Opera and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions that are received and expended in the same reporting period are reported as a component of unrestricted net assets in the accompanying financial statements.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity, the earnings from which are available for the Opera's use upon board appropriation, unless otherwise stipulated by donors or by law.

(c) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset, which is three years for computers and software, five years for office equipment, furniture and vehicles, seven years for technical equipment, and the lesser of seven years or the lease term for leasehold improvements.

(d) Ticket Sales Revenue

Ticket sales are recognized as revenue when the related performance is given. Tickets sold in advance of the applicable performance are recorded as deferred ticket sales until the date of performance.

(e) Contributed Goods and Services

The value of significant contributed goods is reflected as contributions in the financial statements at the fair value of such goods at the date of contribution. For the fiscal years ended June 30, 2016 and 2015, the value of significant contributed goods was $518,498 and $528,013, respectively.

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Contributed services are recognized if the services received (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.

(f) Contributions Receivable

Contributions receivable are reported at the present value of expected future cash flows using fair value discount rates ranging from 0.09% to 5.40% for the fiscal years ended June 30, 2016 and 2015. Life expectancies for gifts due upon donors death are reevaluated annually using the 2012 Individual Annuity Reserving table. Contributions receivable are recorded as unrestricted contributions revenue if there are circumstances surrounding the promise that indicate that the donor intended it for current use otherwise, contributions receivable are reported as temporarily or permanently restricted net assets.

(g) Expense Recognition

Opera production costs are expensed in the fiscal year that the opera is first performed. Opera production costs incurred in advance of the applicable fiscal year are recorded as prepaid production costs.

(h) Income Taxes

The Opera 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 or state income taxes. However, the Opera 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. No income tax provision has been recorded as the net income from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

The Opera follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*, related to accounting for uncertainty in income taxes, which 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. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will more likely than not be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. As of June 30, 2016 and 2015, the Opera had no uncertain tax positions requiring accrual or disclosure.

(i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and money market accounts at a financial institution.

(j) Concentration of Risks

The Opera is exposed to credit loss for the amount of cash in excess of the federally insured limit of $250,000. At June 30, 2016 and 2015, the Opera had cash in banks of $517,970 and $846,650, respectively, in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

(k) Restricted Investments

Restricted investments at June 30, 2016 and 2015, consist of funds designated by donors for investment in perpetuity, the earnings from which are available for the Opera's use upon board appropriation, unless otherwise stipulated by donors or by law. At June 30, 2016 and 2015, substantially all investments of the Opera are managed in a unitized pool of investments of the Music Center Foundation (the Foundation), a not-for-profit organization that raises and holds funds on behalf of the Opera and other operating companies of the Performing Arts Center of Los Angeles. These investments are reported at net asset value as a practical expedient to determining fair value and are classified as restricted investments in the accompanying statements of financial position.

In May 2015, FASB issued an Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*, removing the requirement to categorize investments within the fair value hierarchy for which fair value is measured using net asset value as a practical expedient for determining fair value. While required for fiscal years beginning after December 31, 2016, the Opera has chosen to early adopt the ASU, as permitted by FASB.

(l) Beneficial Interest

The Opera is the income beneficiary of several perpetual trusts held by the Foundation. The Opera has the right to receive the income earned on the trust assets in perpetuity, but will never receive the assets held in the trust. The Beneficial Interest is comprised of gifts held in perpetuity in which the Opera is the named beneficiary, therefore this trust is recorded on the Opera's financial statements at the fair value of the underlying assets. The fair value of the Beneficial Interest is re-measured annually. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statements of activities as a component of permanently restricted net assets as a change in value of Beneficial Interest in perpetual trust. In accordance with the requirements of FASB ASC Topic 820, *Fair Value Measurements*, the Beneficial Interest is valued using unobservable inputs and therefore is categorized as Level 3 in the three-tier fair value hierarchy described in note 3.

Included in the Beneficial Interest are pledge receivables restricted for endowment totaling $5,792,416 and $6,325,236 as of June 30, 2016 and 2015, respectively.

The following table includes a reconciliation of the beginning and ending fund balances of the Beneficial Interest reported at fair value using unobservable inputs categorized as level 3, as of June 30, 2016 and 2015:

		2016	2015
Beginning balance at June 30	$	12,815,758	11,884,494
Total gains or losses (realized and unrealized)		(128,137)	547,882
Purchases		1,176,357	648,367
Issuances and settlements		(287,910)	(264,985)
Ending balance at June 30	$	13,576,068	12,815,758
Total gains or losses for the year included in income attributable to the change in unrealized losses relating to assets held at June 30	$	(416,047)	282,897

(m) Music Center Foundation Distributions

The Music Center Foundation distributes funds to the Opera annually. Such distributions comprise earnings on the Opera's restricted investments, beneficial interest and from the Music Center Foundation’s general fund investments. The distributions from the Music Center Foundation’s investments are included in Endowment Distributions in the Statement of Activities.

In the past, the Opera has received advance distributions from the Music Center Foundation’s general fund. These advance distributions, including an annual charge, are offset consistent with an agreed upon schedule against future distributions.

The remaining balance of advance distributions from the Music Center Foundation total $3,436,822 and $4,285,537 at June 30, 2016 and 2015 of which $687,364 and $857,106 are reported as a component of accounts payable in the accompanying financial statements at June 30, 2016 and 2015, respectively.

On November 18, 2016, the Opera was notified that a donor wished to redirect the restriction on an endowment gift to refund the balance of this obligation. See footnote 14.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(o) Expense Allocation

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more

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than one program or supporting service are allocated based on methods determined by the Opera's management.

(3) Fair Value Measurements

The Opera follows the provisions of FASB ASC Topic 820, *Fair Value Measurements* (ASC Topic 820). ASC Topic 820 establishes a common definition of fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. ASC Topic 820 defines fair value as the price that would be received to sell an asset or the price paid to transfer the liability in an orderly transaction between market participants at the measurement date.

In addition to defining fair value, ASC Topic 820 establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

Level 1: Valuation is based on observable inputs using quoted market prices in active markets for identical assets and liabilities.

Level 2: Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not as active, or valuation methods using models, interest rates, and yield curves as observable inputs.

Level 3: Valuation is based on unobservable inputs that are corroborated by little or no market activity. Therefore, valuation reflects the organization's own assessment about assumptions that market participants would use in pricing the asset and liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Opera's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Opera follows the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and ASU 2015-05, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent.)* to the Opera's restricted investments with the Music Center Foundation. ASU 2009-12 allows for the fair value of certain investments that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds to be reported using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC Topic 820. ASU 2015-05 eliminates the need to categorize investments reported at net asset value in the above leveling hierarchy.

(4) Investments

The Opera's permanently restricted investments are managed in the Music Center Foundation's unitized investment pool, and are subject to the Opera's investment strategy and targets set by the Music Center Foundation. The Opera's investment strategy currently does not allow investment of its permanently restricted funds in nonmarketable securities (i.e., venture capital). The Opera has a designee who sits on the Foundation's investment committee, to provide oversight and communication to the Opera's Board and Budget and Finance committee.

The following table summarizes the underlying investments held in the unitized investment pool with the Foundation at June 30, 2016 and 2015:

		2016	2015
Cash and cash equivalents	$	545,410	724,622
Intermediate-term bond fund		945,512	769,559
Large and mid cap equities		4,117,623	2,922,974
Small cap equities		1,640,683	1,431,122
International equity		1,994,125	1,888,417
Emerging market equities		1,958,075	2,399,432
Equity hedge funds		2,215,314	1,859,703
Absolute return funds		3,209,223	3,161,816
Commodities		383,287	407,971
Restricted investments with Music Center Foundation	$	17,009,252	15,565,616

The restricted investments reported at net asset value totaling $17,009,252 and $15,565,616 at June 30, 2016 and 2015, respectively, are redeemable with the fund at net asset value under the original terms of the investment agreement with the Foundation, which subjects them to the Foundation's respective partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Opera's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Opera were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The following table summarizes the unfunded commitments, redemptions frequency and notice period for Opera's investments, which are valued using net asset value as a practical expedient to estimating fair value in accordance with ASU No. 2009-12 as of June 30, 2016:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Restricted investments with Music Center Foundation	$ 17,009,252	—	Daily to 3 Years	—
Total investments	$ 17,009,252			

The Opera did not have any direct investment holdings as of June 30, 2016 or June 30, 2015.

(5) Contributions Receivable

Contributions receivable, including contributions receivable from the Opera's board members, at June 30, 2016 and 2015, are expected to be received as follows:

	2016	2015
Within one year	$ 18,146,718	13,158,167
Two to five years	13,346,770	8,353,328
Thereafter	24,696,822	40,660,432
	56,190,310	62,171,927
Less discount to reflect contributions receivable at present value	(11,801,086)	(15,791,506)
Total	$ 44,389,224	46,380,421
Contributions receivable	$ 22,545,816	18,580,130
Contributions receivable from related parties	21,843,408	27,800,291
	$ 44,389,224	46,380,421

(6) Property, Plant, and Equipment

Property, plant, and equipment, at cost, consist of the following at June 30, 2016 and 2015:

		2016	2015
Technical equipment	$	3,662,023	5,156,812
Leasehold improvements		443,857	422,543
Equipment, furniture, and vehicles		397,594	346,152
Computers		1,684,564	1,577,683
Software		1,174,772	1,174,335
		7,362,810	8,677,525
Less accumulated depreciation		(6,563,205)	(8,000,545)
	$	799,605	676,980

Depreciation and amortization on property, plant, and equipment totaled $188,683 and $304,141 at June 30, 2016 and 2015, respectively.

(7) Loans and Pledges Payable

(a) Line of Credit

The Opera has a line-of-credit agreement that carries a borrowing limit of $6,000,000 at June 30, 2016 and June 30, 2015, at interest rates ranging up to 4.25%. On November 6, 2015, the Opera extended the expiration date of its line of credit agreement to November 30, 2016. Amounts outstanding under this agreement totaled $2,145,000 and $3,975,000 at June 30, 2016 and 2015, respectively.

On November 10, 2016, the bank approved and extension of the line of credit through November 30, 2017. Under the extension, the borrowing limit is $8,000,000, and includes certain financial covenants. At November 29, 2016, the outstanding balance on the line of credit is $8,000,000.

Interest incurred on these borrowings totaled $227,672 and $243,844 for the fiscal years ended June 30, 2016 and 2015, respectively.

(b) Loans Payable to Related Parties

(i) Loans from Board Members

The Opera received interest-free loans from board members totaling $7,935,000 during the fiscal year ended June 30, 2016. During the year, loans of $4,120,000 were subsequently forgiven. At June 30, 2016, the total amount payable to board members is $2,228,698, $500,000 of which is payable on demand. Of the amount payable to board members at June 30, 2016, $678,698 were payable to related parties that have outstanding pledges totaling $8,566,822.

The Opera received interest-free loans from board members totaling $11,928,000 during the fiscal year ended June 30, 2015. During the year, loans of $1,910,000 were subsequently forgiven. At

June 30, 2015, the total amount payable to board members was $7,728,698, $5,100,000 of which was payable on demand. Of the amount payable on demand, $4,200,000 was repaid by August 12, 2015. Of the amount payable to board members at June 30, 2015, $6,678,698 were payable to related parties that have outstanding pledges totaling $10,844,246.

(ii) Loans from the California Community Foundation

In 2015 and 2014, the Opera entered into two loan agreements with the California Community Foundation (CCF). The loans were provided to the Opera through a donor advised fund maintained at CCF. The donor advised fund from which the loans were obtained was at the direction of a board member of the Opera. The first loan was entered into on September 9, 2014, for $4,000,000. The loan is due and payable in three installments at an annual interest rate of 4% or 10% in the event of default. The loan is payable as follows: $1,000,000 on September 15, 2016; $1,000,000 on September 15, 2017; and $2,000,000 plus any remaining accrued interest on September 15, 2018.

The second loan was entered in to on November 24, 2015, for $2,000,000. The loan is due and payable in two installments at an annual interest rate of 4% or 10% in the event of default. The loan is payable as follows: $1,000,000 on September 15, 2016 and $1,000,000 on September 15, 2017.

Payments due on September 15, 2015 were paid by that date. Interest incurred on these borrowings totaled $208,900 and $120,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

(iii) Note Payable to the Music Center Foundation

On December 21, 2015, the Opera executed a promissory note with the Music Center Foundation for $1,631,522 in exchange for the early satisfaction of a pledge of a beneficial interest made to the Music Center Foundation by a board member of the Opera on behalf of the Opera. The Opera received $671,522 in cash and $960,000 in loan forgiveness from the donor as part of this exchange program. The note is due and payable upon the death of the survivor of the original instrument. The note bears interest at a rate of 6.31% and may be added to the principal and/or paid. The note may be prepaid without penalty.

The Music Center Foundation will contribute any amounts received on repayment of the note to fund the existing beneficial interest on behalf of the Opera. On November 18, 2016, the Opera was notified that a donor wished to redirect the restriction on an endowment gift to repay the balance of this obligation. See footnote 14.

Interest incurred on this pledge totaled $54,154 for the fiscal year ended June 30, 2016.

(8) Commitments

(a) Costume Shop

The Opera had two noncancelable operating leases for its costume shop operations in the fiscal year ended June 30, 2016.

A lease for the costume shop facility commenced on May 1, 2015 for a period of ten years, and expires on April 30, 2025. The lease includes scheduled rent escalations over the term of the lease.

A lease for a costume shop storage facility commenced on May 1, 2015 for a period of five years and one month, and expires on May 31, 2020. The lease includes scheduled rent escalations over the term of the lease.

The Opera recognizes rent expense on a straight-line basis for shop facilities. Total rent expense (including common area charges of $62,373 and $9,787) was $531,821 and $615,528 for the fiscal years ended June 30, 2016 and 2015, respectively. The rent expense for the fiscal year ended June 30, 2015, included the new facility obligations for May and June, as well as obligations of the old costume shop. Minimum lease payments for both costume shop facilities are as follows:

Fiscal years:		
2016 – 2017	$	443,065
2017 – 2018		492,773
2018 – 2019		507,556
2019 – 2020		517,913
2020 – 2021		479,892
	$	2,441,199

(b) Performing Arts Center of Los Angeles

The Opera also leases performance space and office facilities from the Performing Arts Center of Los Angeles County (PACLAC) at the Dorothy Chandler Pavilion (the Pavilion). The Opera entered into a four-year lease agreement with the County effective July 1, 2006 and ended on July 1, 2010, upon which time the term shall automatically extend for successive one-year periods each July 1st provided that the Opera is not then in default of any of the lease provisions.

Total rent paid during the fiscal years ended June 30, 2016 and 2015 totaled $952,084 and $936,240, respectively. Total annual rent under the lease agreement shall be calculated by subtracting the estimated operations receipts of the Pavilion from the estimated operations cost of the Pavilion and multiplying the result by the Opera's estimated rental share. In addition, the Opera transmitted Facility Fees to PACLAC, on a per performance charge on ticket sales under the terms of the lease, of $297,062 and $292,750, during the fiscal years ended June 30, 2016 and 2015, respectively.

(c) Artist contracts

In connection with future opera productions, the Opera has entered into various artist contracts, which totaled $2,083,150 and $3,541,512 at June 30, 2016 and 2015, respectively. Such commitments are to be paid as follows as of June 30, 2016:

Fiscal years:		
2016 – 2017	$	1,930,150
2017 – 2018		153,000
	$	2,083,150

(9) Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes or periods:

		2016	2015
Passage of specified time	$	26,096,553	29,560,211
Endowment unrealized gains		318,146	734,473
Production underwriting		251,500	750,000
Young artist program		2,500,000	3,000,000
	$	29,166,199	34,044,684

Permanently restricted net assets at June 30, 2016 and 2015 are subject to donor-imposed restrictions that the principal will be maintained in perpetuity. As of July 1, 2008, investment income generated from the endowment funds is temporarily restricted by law until appropriated by the Board to support the general operations of the Opera. The following summarizes the components of permanently restricted net assets at June 30:

		2016	2015
Beneficial interest in perpetual trust	$	13,576,068	12,815,758
Endowment receivables		9,423,332	7,539,187
Endowment corpus		17,460,428	14,828,144
	$	40,459,828	35,183,089

(10) Endowment

The Opera follows the standards codified in ASC Subtopic 958-205-65, *Endowments for Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures of All Endowment Funds*. ASC Subtopic 958-205-65 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. It also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA.

(a) Interpretation of Relevant Law

The Opera's Board of Directors has interpreted the state of California UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent to explicit donor stipulations to the contrary. As a result of this interpretation, for accounting and financial statement purposes, the Opera classifies as permanently restricted net assets:

(a) The original value of gifts donated to the permanent endowment,

(b) The original value of subsequent gifts to the permanent endowment, and

(c) Accumulations to the permanent endowment made in accordance with the direction of the application donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified for accounting and financial statement purposes as temporarily restricted net assets until those amounts are appropriated for expenditure by the Opera in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, The Opera's Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) The 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 organization

(7) The investment policies of the organization

(b) Endowment Investment and Spending Policies

The Finance Committee of the Board of Directors, has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. To satisfy the long-term rate-of-return objectives, the Opera 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). These policies establish asset classes that are deemed suitable for investment of endowment funds, which currently include investments in domestic and international equities, fixed income, alternative strategies, and real assets through the Foundation investment pool.

In order to support the long-term growth of the Opera, the Finance Committee has established a spending rate policy where the endowment shall annually distribute a percentage of the 12-quarter rolling average fair value ending on March 30 of the prior fiscal year. In 2016, the percentage rate used was 5%. For funds with donor-imposed asset allocations or distributions, the distributions conform to the donor's expressed wishes. This spending rate policy is consistent with the Opera's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through net gifts and investment return. Final authorization of the appropriation by the Board occurs when the budget is approved.

In addition to its own endowment fund, the Opera has a beneficial interest in perpetual trust from which it receives an annual distribution from this endowment. The Board of Directors of the Foundation determines the distribution pursuant to its distribution policy. Distributions are accrued based on a percentage of the fund's average fair value calculated on a 12-quarter rolling average fair value ending the preceding fiscal year.

All the Opera's endowment net assets for the fiscal years ended June 30, 2016 and 2015, are categorized as permanently restricted in accordance with donor restrictions. The Opera does not have any board-designated endowments as of June 30, 2016 and 2015. Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2016 and 2015, are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:					
Balance, July 1, 2015	$	—	737,473	14,828,144	15,565,617
Investment return:					
Investment income		—	634,677	—	634,677
Net unrealized and realized gains and losses		(769,322)	(419,327)	—	(1,188,649)
Total investment return		(769,322)	215,350	—	(553,972)
Contributions		—	—	2,632,284	2,632,284
Amounts appropriated for expenditure		—	(634,677)	—	(634,677)
Balance, June 30, 2016	$	(769,322)	318,146	17,460,428	17,009,252

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:					
Balance, July 1, 2014	$	—	1,026,514	12,966,651	13,993,165
Investment return:					
Investment income		—	551,353	—	551,353
Net unrealized and realized gains and losses		—	(292,041)	—	(292,041)
Total investment return		—	259,312	—	259,312
Contributions		—	—	1,861,493	1,861,493
Amounts appropriated for expenditure		—	(551,353)	—	(551,353)
Balance, June 30, 2015	$	—	734,473	14,828,144	15,562,617

(11) Legal Matters

In the ordinary course of business, the Opera is subject to certain lawsuits and other potential legal actions. In the opinion of management and outside counsel, there are no such matters that will have a material effect on the financial position or changes in net assets of the Opera.

(12) Pension and Retirement Plans

The Opera makes an annual contribution to a 403(b) retirement plan on behalf of all eligible employees. Contributions to the plan are made for nonunion employees who have completed one year of employment, which included 1,000 hours of service. The Opera may make a discretionary contribution equal to 2% of eligible employees' compensation. For the fiscal years ended June 30, 2016 and 2015, the contribution rate was 2%. The vested percentage for each year of service is as follows:

Year(s) of service	Vested percentage
1	20%
2	40
3	60
4	80
5	100

Costs of the plan are accrued and funded on an annual basis. The contribution amounts for the fiscal years ended June 30, 2016 and 2015, totaled $133,514 and $114,961, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multi-employer pension plans. Contributions to these plans totaled $1,215,656 and $1,302,254 for the fiscal years ended June 30, 2016 and 2015, respectively. Payments to these plans are made and recorded as incurred.

(Continued)

(13) Liquidity

The Opera has experienced improvement in the unrestricted net asset position, which is reflective of conscious efforts to reduce the accumulated deficit and improve liquidity. The opera continues to rely on advance ticket sales and donor contributions to maintain a liquid position, with reduced reliance on borrowings from its line of credit and board members.

(14) Subsequent Events

The Opera has evaluated subsequent events and transactions for potential recognition or disclosure through November 29, 2016, the date the accompanying financial statements were available to be issued.

On July 18, 2016, the Opera received $5,000,000 in fulfillment of a pledge restricted to endowment. On November 18, 2016, the Opera was notified that the donor wished to redirect the restriction to refund the remaining balance on advance distributions (Footnote 2(m)) and repay the note payable to the Music Center Foundation (Footnote 7(b)(iii)).