KPMG

LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Opera Company as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Los Angeles, California
December 20, 2017

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2017 and 2016

Assets		2017	2016
Cash and cash equivalents	$	740,572	833,072
Accounts receivable		194,901	303,721
Contributions receivable (note 5)		21,015,542	22,545,816
Contributions receivable from related parties (note 5)		21,588,354	21,843,408
Prepaid production costs		429,882	792,451
Prepaid expenses, deposits, and other assets		1,102,752	1,057,621
Property, plant, and equipment, net (note 6)		925,419	799,605
Beneficial interest in perpetual trusts (note 2)		14,699,909	13,576,068
Restricted investments (note 4)		19,190,924	17,009,252
	$	79,888,255	78,761,014
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	4,821,692	5,240,213
Deferred ticket sales		6,707,735	6,071,168
Loans payable (note 7)		7,000,000	2,145,000
Loans payable to related parties (note 7)		5,966,667	9,860,220
		24,496,094	23,316,601
Commitments and contingencies (note 8)			
Net assets:			
Unrestricted		(9,841,766)	(14,181,614)
Temporarily restricted (note 9)		30,766,240	29,166,199
Permanently restricted (notes 9 and 10)		34,467,687	40,459,828
Total net assets		55,392,161	55,444,413
	$	79,888,255	78,761,014

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:								
Earned revenue:								
Ticket sales and fees – opera season	$ 11,530,126	—	—	11,530,126	12,826,811	—	—	12,826,811
Ticket sales and fees – recitals and other performances	1,069,967	—	—	1,069,967	1,086,739	—	—	1,086,739
Other earned revenue	456,152	—	—	456,152	473,302	—	—	473,302
Endowment distribution	1,240,899	—	—	1,240,899	563,904	—	—	563,904
Change in value of beneficial interest in perpetual trust	—	—	1,123,841	1,123,841	—	—	(416,047)	(416,047)
Total earned revenue	14,297,144	—	1,123,841	15,420,985	14,950,756	—	(416,047)	14,534,709
Support:								
Foundations, corporations, and individuals	11,341,164	10,388,904	187,600	21,917,668	17,209,698	4,584,182	6,352,359	28,146,239
Government grants	1,194,824	1,178,112	—	2,372,936	114,610	21,400		136,010
Donated materials and services	650,060	—	—	650,060	518,498	—	—	518,498
Change in discount to recognize pledges at present value	—	3,845,214	196,418	4,041,632	—	2,484,085	840,427	3,324,512
Net support from foundations, corporations, individuals, and governments	13,186,048	15,412,230	384,018	28,982,296	17,842,806	7,089,667	7,192,786	32,125,259
Special events:								
Revenue	750,328	298,713	—	1,049,041	2,718,574	375,537	—	3,094,111
Net assets released from restriction	411,481	(411,481)	—	—	984,285	(984,285)	—	—
Less costs of direct benefits to donors	(605,839)	—	—	(605,839)	(827,914)	—	—	(827,914)
Net revenue from special events	555,970	(112,768)	—	443,202	2,874,945	(608,748)	—	2,266,197
Total support	13,742,018	15,299,462	384,018	29,425,498	20,717,751	6,480,919	7,192,786	34,391,456
Net assets released from restrictions								
Revenue	22,522,414	(17,522,414)	(5,000,000)	—	10,930,985	(9,430,985)	(1,500,000)	—
Temporary release for short-term use (note 9)	—	2,500,000	(2,500,000)	—				—
Total support and net assets released from restrictions	36,264,432	277,048	(7,115,982)	29,425,498	31,648,736	(2,950,066)	5,692,786	34,391,456
Total revenue and support	50,561,576	277,048	(5,992,141)	44,846,483	46,599,492	(2,950,066)	5,276,739	48,926,165
Expenses:								
Production, performance, and outreach	31,719,824	—	—	31,719,824	30,114,063	—	—	30,114,063
Marketing and public relations	4,557,959	—	—	4,557,959	4,343,783	—	—	4,343,783
Management and general	3,446,067	—	—	3,446,067	3,093,081	—	—	3,093,081
Fund-raising	3,022,647	—	—	3,022,647	3,081,278	—	—	3,081,278
Total expenses	42,746,497	—	—	42,746,497	40,632,205	—	—	40,632,205
Change in net assets from operating activities	7,815,079	277,048	(5,992,141)	2,099,986	5,967,287	(2,950,066)	5,276,739	8,293,960
Nonoperating Items:								
Endowment investment income (loss), net of distributions	727,392	1,322,993	—	2,050,385	(769,321)	(419,327)	—	(1,188,648)
Other investment income	7,574	—	—	7,574	—	—	—	—
Expense from voluntary prepayment of advance distributions (note 2(l))	(2,749,458)	—	—	(2,749,458)	—	—	—	—
Uncollectible pledges receivable	(1,460,739)	—	—	(1,460,739)	(131,857)	(1,509,092)	—	(1,640,949)
Change in net assets	4,339,848	1,600,041	(5,992,141)	(52,252)	5,066,109	(4,878,485)	5,276,739	5,464,363
Net assets at the beginning 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
Net assets at the end of the year	$ (9,841,766)	30,766,240	34,467,687	55,392,161	(14,181,614)	29,166,199	40,459,828	55,444,413

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	(52,252)	5,464,363
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization of property, plant, and equipment		242,035	188,683
Change in value of beneficial interest in perpetual trust		(1,009,289)	128,137
Unrealized and realized gain on investments, net		(2,542,504)	553,972
Gain on disposal of property, plant, and equipment		—	(1,514)
Contributions restricted for permanent investment (see note 9)		(2,500,000)	—
Contributions restricted for endowment (see note 10)		(5,176,090)	(2,632,284)
Contributions of beneficial interest in perpetual trust		(419,162)	(1,176,357)
Uncollectible contributions receivable		1,460,739	1,640,949
Forgiveness of loans from related parties		—	(1,000,000)
Changes in operating assets and liabilities:			
Accounts receivable		108,820	113,402
Contributions receivable		(287,444)	(2,769,756)
Prepaid production costs		362,569	(482,389)
Prepaid expenses and deposits		(45,131)	198,080
Accounts payable and accrued liabilities		(418,521)	(804,803)
Deferred ticket sales		636,567	(371,315)
Net cash used in operating activities		(9,639,663)	(950,832)
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(367,847)	(315,094)
Proceeds from the sale of property, plant, and equipment		—	5,300
Net cash used in investing activities		(367,847)	(309,794)
Cash flows from financing activities:			
Earnings and distributions restricted for permanent investment:			
Through the Opera’s endowment (see note 10)		5,536,922	922,588
Through the beneficial interest (see note 2(k))		304,610	—
Proceeds from loans payable		14,968,000	24,486,522
Repayments of loans payable		(10,894,522)	(24,065,000)
Net cash provided by financing activities		9,915,010	1,344,110
Net (decrease) increase in cash and cash equivalents		(92,500)	83,484
Cash and cash equivalents at the beginning of the year		833,072	749,588
Cash and cash equivalents at the end of the year	$	740,572	833,072
Supplemental disclosures of cash flow information:			
Interest paid during the year	$	581,587	409,572
Loan forgiveness to satisfy pledge receivables		(612,031)	(2,120,000)

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 (PACLAC).

(2) Summary of Significant Accounting Policies

(a) 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.

(b) 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.

(c) 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.

(d) 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.

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.

For the fiscal years ended June 30, 2017 and 2016, the value of significant contributed goods was $650,060 and $518,498, respectively.

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(e) 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, 2017 and 2016. Life expectancies for gifts due upon donor's 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.

(f) 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.

(g) 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.

(h) Cash and Cash Equivalents

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

(i) 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, 2017 and 2016, the Opera had cash in banks of $476,953 and $517,970, respectively, in excess of Federal Deposit Insurance Corporation insurance limits.

(j) Restricted Investments

Restricted investments at June 30, 2017 and 2016, 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, 2017 and 2016, 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 accordance with Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*, the Opera has not categorize investments

(Continued)

at the Foundation within the fair value hierarchy as those investments are measured using net asset value as a practical expedient for determining fair value.

(k) 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, these trusts are recorded on the Opera's financial statements at the fair value of the underlying assets. The fair value of the beneficial interest is remeasured 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 Measurement*, the beneficial interest is valued using unobservable inputs and is therefore 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 $5,944,408 and $5,792,416 as of June 30, 2017 and 2016, 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, 2017 and 2016:

		2017	2016
Beginning balance at June 30	$	13,576,068	12,815,758
Total gains and losses (realized and unrealized)		1,009,289	(128,137)
Purchases		419,162	1,176,357
Issuances and settlements		(304,610)	(287,910)
Ending balance at June 30	$	14,699,909	13,576,068
Total gains and losses for the year included in income attributable to the change in unrealized gains (losses) relating to assets held at June 30	$	704,679	(416,047)

(l) Music Center Foundation Distributions

The Foundation distributes funds to the Opera annually. Such distributions comprise earnings on the Opera's restricted investments, beneficial interest, and from the Foundation's general fund investments. The distributions from the Foundation's investments are included in endowment distributions in the statement of activities.

In prior years, the Opera received advance distributions from the Foundation's general fund and from future earnings on the Opera's beneficial interest held by the Foundation. In the years of the advance distributions, the Opera had reported the portion of such distributions related to the Foundation's general fund as contribution income. The portion related to the Opera's-beneficial interest was reported as a component of accounts payable. Annual discretionary distributions from the Foundation were reduced by amounts consistent with an agreed upon schedule. In the event that no discretionary distributions were made by the Foundation, no restoration of such advance distributions would be required under the agreement.

As this arrangement significantly decreased annual discretionary distributions from the Foundation, the Opera determined it would be in its best interest to restore the amounts previously received. On November 18, 2016, the donor of a permanently restricted endowment gift of $5,000,000 instructed the Opera to release the gift and accumulated earnings from restriction in order to restore the advance distributions. At the date of this release, the advance distributions from the Foundation totaled $3,436,822, of which $687,364 was reported as a component of accounts payable in the financial statements at June 30, 2016. As a result of this transaction, the Opera realized a one-time expense of $2,749,458 for the year ended June 30, 2017. This expense represents the remaining amount of the advance distributions from the Foundation's general fund that had been reported as income in the past. At June 30, 2017, the advance distributions had been fully restored.

Per the donor's instructions, additional funds from the release of the $5,000,000 endowment gift fulfilled another obligation with the Foundation. Reference footnote 7(b)(iii) for additional discussion.

(m) 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.

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

(o) Going Concern

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to assess, at each interim and annual reporting period, whether substantial doubt exists about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The standard is effective for the Opera for the annual period ending after November 29, 2016. The Opera has adopted the methodologies prescribed by ASU No. 2014-15 and it did not have an effect on the financial statements.

(3) Fair Value Measurements

The Opera follows the provisions of FASB 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 that prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value 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 ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* to the Opera's restricted investments with the Foundation. ASU No. 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 No. 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 Foundation's unitized investment pool, and are subject to the Opera's investment strategy and targets set by the 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, 2017 and 2016:

		2017	2016
Cash and cash equivalents	$	572,197	545,410
Intermediate-term bond fund		967,773	945,512
Large- and mid-cap equities		4,914,514	4,117,623
Small cap equities		1,972,295	1,640,683
International equity		2,596,243	1,994,125
Emerging market equities		2,325,785	1,958,075
Equity hedge funds		2,529,166	2,215,314
Absolute return funds		3,075,554	3,209,223
Commodities		237,397	383,287
Restricted investments with the Foundation	$	19,190,924	17,009,252

The restricted investments reported at net asset value totaling $19,190,924 and $17,009,252 at June 30, 2017 and 2016, 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, 2017:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Restricted investments with the Foundation	$	19,190,924	—	Daily to 3 years	—
Total investments	$	19,190,924			

The Opera did not have any direct investment holdings as of June 30, 2017 or 2016.

(5) Contributions Receivable

Contributions receivable, including contributions receivable from the Opera's board members, at June 30, 2017 and 2016 are expected to be received as follows:

		2017	2016
Within one year	$	21,469,889	18,146,718
Two to five years		7,747,874	13,346,770
Thereafter		21,145,587	24,696,822
		50,363,350	56,190,310
Less discount to reflect contributions receivable at present value		(7,759,454)	(11,801,086)
Total	$	42,603,896	44,389,224
Contributions receivable	$	21,015,542	22,545,816
Contributions receivable from related parties		21,588,354	21,843,408
	$	42,603,896	44,389,224

(6) Property, Plant, and Equipment

Property, plant, and equipment, at cost, consist of the following at June 30, 2017 and 2016:

		2017	2016
Technical equipment	$	3,735,449	3,662,023
Leasehold improvements		529,058	443,857
Equipment, furniture, and vehicles		456,775	397,594
Computers		1,732,415	1,684,564
Software		1,276,961	1,174,772
		7,730,658	7,362,810
Less accumulated depreciation		(6,805,239)	(6,563,205)
	$	925,419	799,605

Depreciation and amortization on property, plant, and equipment totaled $242,035 and $188,683 at June 30, 2017 and 2016, respectively.

(7) Loans and Pledges Payable

(a) Line of Credit

The Opera has a line-of-credit agreement that carries a borrowing limit of $8,000,000 at June 30, 2017 and $6,000,000 at June 30, 2016, with interest rates ranging up to 5.00%. The line of credit expires on November 30, 2017. Amounts outstanding under this agreement totaled $7,000,000 and $2,145,000 at June 30, 2017 and 2016, respectively.

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On November 30, 2017, the bank approved an extension of the line of credit through November 30, 2018. Under the extension, the borrowing limit is $8,000,000 and includes certain financial covenants. At December 20, 2017, the outstanding balance on the line of credit is zero.

Interest incurred on these borrowings totaled $283,438 and $227,672 for the fiscal years ended June 30, 2017 and 2016, respectively.

(b) Loans Payable to Related Parties

(i) Loans from Board Members

The Opera received interest-free loans from board members totaling $718,000 during the fiscal year ended June 30, 2017. During the year, loans of $612,031 were subsequently forgiven. At June 30, 2017, the total amount payable to board members is $966,667, $350,000 of which is payable on demand. Of the amount payable to board members at June 30, 2017, $916,667 was payable to related parties that have outstanding pledges totaling $5,208,583.

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 was payable to related parties that have outstanding pledges totaling $8,566,822.

(ii) Loans from the California Community Foundation

In fiscal years 2017, 2016, and 2015, the Opera entered into three 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. On July 31, 2017, the loan agreement was amended to extend the September 15, 2017 payment date to March 30, 2018. The current balance on the first loan is $3,000,000.

The second loan was entered into 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. On July 31, 2017, the loan agreement was amended to extend the September 15, 2017 payment date to March 30, 2018. The current balance on the second loan is $1,000,000.

The third loan was entered into on September 20, 2016 for $1,000,000. The loan is due and payable in one installment on March 20, 2018, at an annual interest rate of 4% or 10% in the event of default.

Payments due on September 15, 2015 and September 15, 2016 were paid by that date. Interest incurred on these borrowings totaled $210,000 and $208,900 for the fiscal years ended June 30, 2017 and 2016, respectively.

(iii) Note Payable to the Music Center Foundation

On December 21, 2015, the Opera executed a promissory note with the Foundation for $1,631,522 in exchange for the early satisfaction of a pledge of a beneficial interest made to the 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 was due and payable upon the death of the survivor of the original instrument. The note had an interest rate of 6.31% which may have been added to the principal and/or paid. Interest incurred on this pledge totaled $51,898 and $54,154 for the fiscal years ended June 30, 2017 and 2016, respectively.

As discussed in note 2(i), on November 18, 2016 the donor of a permanently restricted endowment gift of $5,000,000 instructed the Opera to release the gift and accumulated earnings from restriction in order to refund the outstanding balance of advance distributions as well as the balance of this note payable. The repayment of this note funded the existing beneficial interest gift on behalf of the Opera. The note was prepaid without penalty.

(8) Commitments

(a) Costume Shop

The Opera had two noncancelable operating leases for its costume shop operations in the fiscal year ended June 30, 2017.

A lease for the costume shop facility commenced on May 1, 2015 for a period of 10 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 $56,475 and $62,373) was $570,923 and $576,821 for the fiscal years ended June 30, 2017 and 2016, respectively. Minimum lease payments for both costume shop facilities are as follows:

Fiscal years:	
2017–2018	$ 492,773
2018–2019	507,556
2019–2020	517,913
2020–2021	479,892
2021–2022	494,309
2022–2023	509,218
2023–2024	524,391
2024–2025	447,863
	$ 3,973,915

(b) Performing Arts Center of Los Angeles

The Opera also leases performance space and office facilities from PACLAC at the Dorothy Chandler Pavilion (the Pavilion). The Opera entered into a four-year lease agreement with PACLAC 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 1 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, 2017 and 2016 totaled $969,766 and $952,084, 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, which was $317,902 and $297,062 during the fiscal years ended June 30, 2017 and 2016, respectively.

(c) Artistic, Director, and Production Contracts

In connection with future opera productions, the Opera has entered into various artist, director, and production contracts, which totaled $11,374,818 and $10,781,251 at June 30, 2017 and 2016, respectively. Such commitments are to be paid as follows as of June 30, 2017:

Fiscal years:		
2017–2018	$	4,451,818
2018–2019		2,135,500
2019–2020		1,982,500
2020–2021		1,805,000
2021–2022		1,000,000
	$	11,374,818

(9) Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes or periods:

		2017	2016
Passage of specified time	$	25,919,904	26,096,553
Endowment unrealized gains		1,596,336	318,146
Production underwriting		1,000,000	251,500
Young artist program		2,250,000	2,500,000
	$	30,766,240	29,166,199

In 2017, a donor authorized the Opera to use a $2,500,000 endowment gift for temporary short-term use. The temporary release is reflected as a reduction of permanently restricted net assets and an increase to temporarily restricted net assets. It is included above as a component of the $25,919,904 restricted for

"Passage of specified time." In early 2018, the funds will be transferred to the Opera's restricted investments held at the Foundation, therefore satisfying the original restriction.

Permanently restricted net assets at June 30, 2017 and 2016 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 table summarizes the components of permanently restricted net assets at June 30:

		2017	2016
Beneficial interest in perpetual trust	$	14,699,909	13,576,068
Endowment receivables		2,131,260	9,423,332
Endowment corpus		17,636,518	17,460,428
	$	34,467,687	40,459,828

(10) Endowment

The Opera follows the standards codified in ASC Section 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 Section 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's 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

(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's 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 2017, 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.

(Continued)

All the Opera's endowment net assets for the fiscal years ended June 30, 2017 and 2016 are categorized as permanently restricted in accordance with donor restrictions. The Opera does not have any board-designated endowments as of June 30, 2017 and 2016. Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2017 and 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:					
Balance, July 1, 2016	$	(769,322)	318,146	17,460,428	17,009,252
Investment return:					
Investment income		—	492,119	—	492,119
Net unrealized and realized gains		727,392	1,322,993	—	2,050,385
Total investment return		727,392	1,815,112	—	2,542,504
Contributions		—	—	5,176,090	5,176,090
Amounts:					
Appropriated for expenditure		—	(492,119)	—	(492,119)
Released from restriction		—	(44,803)	(5,000,000)	(5,044,803)
Total expenditures and releases		—	(536,922)	(5,000,000)	(5,536,922)
Balance, June 30, 2017	$	(41,930)	1,596,336	17,636,518	19,190,924

		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 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

(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, 2017 and 2016, 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, 2017 and 2016 totaled $129,230 and $133,514, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension plans. Contributions to these plans totaled $1,265,652 and $1,215,656 for the fiscal years ended June 30, 2017 and 2016, respectively. Payments to these plans are made and recorded as incurred.

(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.

(14) Subsequent Events

The Opera has evaluated subsequent events and transactions for potential recognition or disclosure through December 20, 2017, the date the accompanying financial statements were available to be issued.