



**LOS ANGELES OPERA COMPANY**

Financial Statements

June 30, 2020 and 2019

(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, which comprise the statements of financial position as of June 30, 2020 and 2019, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles Opera Company as of June 30, 2020 and 2019, 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  
January 22, 2021

**LOS ANGELES OPERA COMPANY**

Statements of Financial Position

June 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 410,592	1,460,920
Accounts receivable	2,647,085	784,588
Contributions receivable (note 6)	12,314,808	12,226,758
Contributions receivable from related parties (note 6)	14,937,479	21,841,375
Prepaid production costs	634,806	939,457
Prepaid expenses, deposits, and other assets	559,970	453,707
Property, plant, and equipment, net (note 7)	1,316,014	1,614,562
Beneficial interest in perpetual trust (note 2)	16,003,936	15,879,595
Beneficial interest in remainder trust (note 2)	19,070,643	19,070,643
Restricted investments (note 4)	22,395,921	23,115,709
Total assets	\$ 90,291,254	97,387,314
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 4,532,929	5,279,454
Deferred ticket sales	4,426,893	6,174,882
Loans payable (note 8)	6,280,000	5,025,000
Loans payable to related parties (note 8)	3,550,000	3,616,667
Total liabilities	18,789,822	20,096,003
Net assets:		
Without donor restrictions	(9,661,362)	(6,457,004)
With donor restrictions (note 10)	81,162,794	83,748,315
Total net assets	71,501,432	77,291,311
Total liabilities and net assets	\$ 90,291,254	97,387,314

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and support:						
Earned revenue:						
Ticket sales and fees – opera season	\$ 6,448,361	—	6,448,361	11,112,223	—	11,112,223
Ticket sales and fees – recitals and other performances	1,743,100	—	1,743,100	333,692	—	333,692
Other earned revenue	3,551,086	—	3,551,086	1,681,752	—	1,681,752
Total earned revenue	11,742,547	—	11,742,547	13,127,667	—	13,127,667
Support:						
Foundations, corporations, and individuals	12,306,595	5,791,082	18,097,677	21,140,312	11,069,718	32,210,030
Government grants	4,303,445	1,114,900	5,418,345	153,600	1,109,250	1,262,850
Donated materials and services	1,136,681	—	1,136,681	419,542	—	419,542
Change in value of beneficial interest in perpetual trust	—	124,341	124,341	—	259,484	259,484
Change in value of beneficial interest in remainder trust	—	—	—	—	(100,000)	(100,000)
Change in discount to recognize pledges at present value	(73,243)	1,098,258	1,025,015	—	1,163,786	1,163,786
Net support from foundations, corporations, individuals, and governments	17,673,478	8,128,581	25,802,059	21,713,454	13,502,238	35,215,692
Special events:						
Revenue	157,882	299,160	457,042	570,827	494,786	1,065,613
Less costs of direct benefits to donors	(584,561)	—	(584,561)	(458,712)	—	(458,712)
Net revenue from special events	(426,679)	299,160	(127,519)	112,115	494,786	606,901
Total support	17,246,799	8,427,741	25,674,540	21,825,569	13,997,024	35,822,593
Net assets released from restrictions						
Revenue	9,490,802	(9,490,802)	—	10,525,439	(10,525,439)	—
Distributions (note 2)	1,454,013	(1,454,013)	—	1,233,970	(1,233,970)	—
Special events	607,315	(607,315)	—	331,359	(331,359)	—
Total net assets released from restrictions	11,552,130	(11,552,130)	—	12,090,768	(12,090,768)	—
Total revenue and support	40,541,476	(3,124,389)	37,417,087	47,044,004	1,906,256	48,950,260
Expenses (note 5):						
Programs	33,067,681	—	33,067,681	35,533,940	—	35,533,940
Management and general	5,482,086	—	5,482,086	4,148,700	—	4,148,700
Fundraising	4,030,764	—	4,030,764	4,107,505	—	4,107,505
Total expenses	42,580,531	—	42,580,531	43,790,145	—	43,790,145
Change in net assets from operating activities	(2,039,055)	(3,124,389)	(5,163,444)	3,253,859	1,906,256	5,160,115
Nonoperating Items:						
Restricted investment income (loss)	—	538,868	538,868	—	1,612,171	1,612,171
Other investment income	8,623	—	8,623	3,235	—	3,235
Uncollectible pledges receivable	(1,173,926)	—	(1,173,926)	(160,204)	—	(160,204)
Change in net assets	(3,204,358)	(2,585,521)	(5,789,879)	3,096,890	3,518,427	6,615,317
Net assets at the beginning of the year	(6,457,004)	83,748,315	77,291,311	(9,553,894)	80,229,888	70,675,994
Net assets at the end of the year	\$ (9,661,362)	81,162,794	71,501,432	(6,457,004)	83,748,315	77,291,311

See accompanying notes to financial statements.

**LOS ANGELES OPERA COMPANY**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Change in net assets	\$ (5,789,879)	6,615,317
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	494,028	385,512
Total gains or losses, beneficial interest in perpetual trust (realized and unrealized), net	(109,208)	(354,914)
Change in value in beneficial interest in remainder trust	—	100,000
Net investment return on restricted investments	(115,435)	(1,207,745)
Contributions restricted for endowment	(176,800)	(180,000)
Contributions of beneficial interest in perpetual trust	(457,123)	(308,996)
Forgiveness of loans from related parties	(316,667)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,862,497)	(607,148)
Contributions receivable	6,815,846	(3,411,933)
Prepaid production costs	304,651	148,805
Prepaid expenses and deposits	(106,263)	84,832
Accounts payable and accrued liabilities	(746,525)	338,528
Deferred ticket sales	(1,747,989)	181,030
Net cash (used in) provided by operating activities	(3,813,861)	1,783,288
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(195,480)	(850,411)
Restricted investment commitments payable	—	554,015
Distributions from restricted investments	1,012,023	829,544
Distributions from beneficial interest in perpetual trust	441,990	404,426
Net cash provided by investing activities	1,258,533	937,574
Cash flows from financing activities:		
Proceeds from loans payable	16,880,000	20,210,000
Repayments of loans payable	(15,375,000)	(21,935,000)
Net cash provided by (used in) financing activities	1,505,000	(1,725,000)
Net (decrease) increase in cash and cash equivalents	(1,050,328)	995,862
Cash and cash equivalents at the beginning of the year	1,460,920	465,058
Cash and cash equivalents at the end of the year	\$ 410,592	1,460,920
Supplemental disclosures of cash flow information:		
Interest paid during the year	\$ (368,644)	(547,875)
Donated materials and services	1,136,681	419,542

See accompanying notes to financial statements.

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (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) 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:

- **Without Donor Restrictions** – 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.
- **With Donor Restrictions** – 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, or those that are maintained in perpetuity. As the restrictions are satisfied, net assets are reclassified to net assets without donor restrictions 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 net assets without donor restrictions in the accompanying financial statements. For net assets maintained in perpetuity, the earnings are available for the Opera's use, upon board appropriation and according to spending policies, 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, 2020 and 2019, the value of significant contributed goods was \$1,136,681 and \$419,542, respectively, and includes legal services, marketing expenses, musical instruments, and production supplies.

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

**(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 4.70%. Life expectancies for gifts due upon donor's death are reevaluated annually using the 2012 Individual Annuity Reserving table. Contributions receivable are recorded as contributions revenue without donor restrictions if there are circumstances surrounding the promise that indicate that the donor intended it for current use, otherwise contribution receivables are reported as net assets with donor restrictions.

**(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 for unrelated business income tax was recorded at June 30, 2020, and while a liability of \$15,648 was recorded at June 30, 2019, due to changes in the tax law for unrelated business income on qualified transportation fringe benefits subsequent to June 30, 2019, the previous liability was reversed.

**(h) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit and donated investments held temporarily, excluding cash and cash equivalents held for long-term investing purposes.

**(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, 2020, the Opera's balance of cash in individual bank accounts was not in excess of Federal Deposit Insurance Corporation insurance limits. At June 30, 2019, the Opera had cash in banks of \$80,324 in excess of Federal Deposit Insurance Corporation insurance limits.

**(j) Restricted Investments**

Restricted investments at June 30, 2020 and 2019, consist of funds restricted by donors for investment in perpetuity (Endowment (note 11)). The earnings from such investments are available for the Opera's use upon Board appropriation, unless otherwise stipulated by donors or by law. At June 30, 2020 and 2019, substantially all investments owned by 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.



## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

**(k) Beneficial Interest in Perpetual Trust**

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 comprises gifts held in perpetuity for which the Opera is the named beneficiary and 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 remeasured annually. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statements of activities as a component of net assets with donor restrictions as a change in value of beneficial interest in perpetual trust. In accordance with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Code (ASC) Topic 820, *Fair Value Measurement*, 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.

The board of directors of the Foundation determines the distribution amount and timing 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.

Included in the beneficial interest are pledge receivables restricted for endowment totaling \$5,954,933 and \$6,117,372 as of June 30, 2020 and 2019, 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, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Beginning balance at June 30	\$ 15,879,595	15,620,111
Total gains or losses (realized and unrealized)	109,208	354,914
Purchases	457,123	308,996
Issuances and settlements	(441,990)	(404,426)
Ending balance at June 30	\$ 16,003,936	15,879,595
Total gains or losses for the year included in income attributable to the change in unrealized gains and losses relating to assets held at June 30	\$ (367,649)	(139,512)

**(l) Beneficial Interest in Remainder Trust**

During fiscal 2018, the Opera was notified that it was the remainder beneficiary of a trust that includes a mobile home park, a partial interest in an apartment building, and various investment accounts. The beneficial interest in remainder trust is recorded on the Opera's financial statements at the fair value of the trust assets reduced by the liabilities of the trust. The fair value of the beneficial interest is remeasured annually. Subsequent changes in the value of the underlying assets will be recorded in the accompanying statements of activities as a component of net assets without donor restrictions as a change in value of beneficial interest in remainder trust. In accordance with the requirements of

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

FASB ASC Topic 820, *Fair Value Measurement*, 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.

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, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Beginning balance at June 30	\$ 19,070,643	19,170,643
Total gains or losses (realized and unrealized)	—	(100,000)
Ending balance at June 30	\$ 19,070,643	19,070,643
Total gains or losses for the year included in income attributable to the change in unrealized gains or losses relating to assets held at June 30	\$ —	(100,000)

**(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 and beneficial interest. The distributions included in the statement of activities are as follows:

	<b>2020</b>	<b>2019</b>
Restricted investments	\$ 1,012,023	829,544
Beneficial interest in perpetual trust	441,990	404,426
Total distribution	\$ 1,454,013	1,233,970

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

**(p) New Accounting Standards**

In November 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-18, *Restricted Cash*, which requires restricted cash and restricted cash equivalents to be included in the total cash and cash equivalents within the statement of cash flows and requires disclosure about the nature of

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

restrictions on cash and cash equivalents. Additionally, where cash and cash equivalents are presented in more than one line on the balance sheet, the amounts and corresponding line items are disclosed and reconciled to the total cash and cash equivalents shown in the statement of cash flows. The Opera has adopted this accounting guidance statement on a modified basis for the year ended June 30, 2020. The adoption of this accounting guidance did not have a material effect on the financial statements.

In January 2018, the FASB issued ASU No. 2018-08, *Contributions Received and Made*, to clarify and improve the scope and accounting guidance for contributions received and made. The update provides guidance on what is an exchange transaction and what is a contribution. If a transaction is determined to be a contribution, it has to be determined if it is conditional or unconditional. A conditional transaction is an agreement, which includes both a 'barrier' that must be overcome and either a 'right of asset return' or 'release of promise to give'. Ambiguous donor stipulations are presumed to be conditional if not clearly unconditional. Barrier indicators are measurable performance requirements before entitlement to assets or stipulations related to the purpose of the agreement or limiting recipient discretion in conducting an activity. This statement is effective for the year ended June 30, 2020 for contributions received and the year ending June 30, 2021 for grants made. The Opera has adopted the guidance with respect to contributions received, which did not result in a material change to these financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by eliminating certain components previously required to be disclosed for investments valued with unobservable inputs. Under the new guidance, for investments in certain entities that calculate net asset value, the requirement to disclose the estimate period of time over which the underlying assets might be liquidated is replaced by the disclosure of that time period if the investee has announced the timing publicly. The statement is effective for the year ending June 30, 2021, with early adoption permitted. The Opera does not expect the new guidance to have a material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires a lessee to recognize a lease asset and a lease liability for most of its operating leases. Prior to the adoption of the update, operating leases are not recognized by a lessee in its statements of financial position. In general, the new leased asset and liability will equal the present value of lease payments. The statement is effective for the fiscal year ending June 30, 2022. The Opera is currently evaluating the effects the adoption of this statement will have on the financial statements.

#### **(g) Current Environment**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce, and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies, and financial markets may adversely affect operations and financial condition, including contributions received and financial markets impacting investment valuation and interest rates, among other things.

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### Notes to Financial Statements

June 30, 2020 and 2019

In response to a County of Los Angeles Department of Public Health Order issued on March 12, 2020, the Opera halted all Opera productions. Commencing March 23, 2020, the Opera responded to local regulations by initiating a full remote work arrangement for all employees. The arrangements have had no negative impact on the ability of the Opera to manage operations.

In order to continue to pay artists, musicians and tradespeople who were contracted to provide services for the canceled performances, as well as to continue to pay the administrative staff in lieu of layoffs, the Opera elected to apply for a Paycheck Protection Plan loan (PPP loan) from the Small Business Administration, as provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. On April 10, 2020, the Opera was approved for a \$4,104,545 PPP loan through the Small Business Administration. The PPP loan was used for payroll, lease, utility, and interest payments eligible under the loan program. On October 6, 2020, the Opera submitted an application for 100% forgiveness of the PPP loan under the loan guidelines. Pursuant to the forgiveness guidelines and under the Opera's accounting policies, the full amount of the PPP loan was recognized as a government grant on the statements of activities at June 30, 2020. As of the date that these financial statements are available to be issued, the Opera has not received confirmation of PPP loan forgiveness from the Small Business Administration.

In May 2020, the Opera filed a claim under an existing performance disruption insurance policy. Insurance proceeds totaling \$2,200,000 are recognized on the statements of activities as other earned revenue for the year ended June 30, 2020 and are included in accounts receivable on the statements of financial position at June 30, 2020.

The prospective financial impact on the Opera cannot be quantified at this time, the pandemic may have a material adverse effect on the future financial position. The Opera continues to monitor the course of the pandemic and is prepared to take additional measures to address future challenges that may come.

### (3) Fair Value Measurements

The Opera follows the provisions of FASB ASC Topic 820, *Fair Value Measurement* (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.

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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. 2015-05, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to value the Opera's restricted investments with the Music Center 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.

#### (4) Restricted Investments

The Opera's 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 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, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 699,297	1,869,129
Intermediate-term bond fund	1,198,028	1,122,765
Large and mid cap equities	6,632,611	4,655,205
Small cap equities	2,809,565	2,955,523
International equity	2,518,071	2,859,495
Emerging market equities	1,877,078	3,016,268
Equity hedge funds	3,054,533	2,974,290
Absolute return funds	3,606,738	3,663,034
Restricted investments with Music Center Foundation	\$ 22,395,921	23,115,709

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### Notes to Financial Statements

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The Opera's restricted investments with the Music Center Foundation are valued using net asset value as a practical expedient as provided for under ASC 820. The restricted investments have no unfunded commitments and are available for redemption under the terms of the original investment agreement ranging from daily to three years. The investment agreement subjects the investments 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.

The Opera did not have any direct investment holdings as of June 30, 2020 or June 30, 2019.

#### (5) Functional Expenses

For the year ended June 30, 2020, functional expenses are as follows:

	Program services					Supporting services			Total
	Opera	Recitals & Off Grand	LA Opera Connects	Young Artist Program	Program subtotal	G&A	Fundraising	Supporting subtotal	6/30/2020
Salaries and artist fees	\$ 15,632,287	1,793,004	1,347,593	797,989	19,570,873	1,496,657	2,071,653	3,568,310	23,139,183
Retirement contributions	1,039,011	136,105	31,383	3,966	1,210,465	24,803	30,433	55,236	1,265,701
Other benefits and taxes	2,653,345	312,095	233,927	126,016	3,325,383	185,843	307,977	493,820	3,819,203
Materials, supplies, and equipment	135,710	298,534	22,482	1,534	458,260	106,047	8,018	114,065	572,325
Production expenses	1,500,732	777,168	57,279	3,678	2,338,857	20,688	3,410	24,098	2,362,955
Storage costs	598,515	17,894	12,021	7,041	635,471	15,071	1,460	16,531	652,002
Travel and accommodations	477,769	163,655	53,109	45,304	739,837	89,209	70,690	159,899	899,736
Services and professional fees	866,962	555,402	204,008	36,432	1,662,804	2,088,795	1,716,265	3,805,060	5,467,864
Advertising and marketing	371,405	84,652	61,149	350	517,556	1,126,063	222,001	1,348,064	1,865,620
Occupancy	1,519,974	243,961	41,468	9,844	1,815,247	95,211	51,390	146,601	1,961,848
Depreciation	193,005	34,317	42,064	9,439	278,825	148,467	66,736	215,203	494,028
Insurance	175,745	31,063	14,815	7,326	228,949	37,957	29,077	67,034	295,983
Interest	218,889	38,689	18,452	9,124	285,154	47,275	36,215	83,490	368,644
Less cost of direct benefits to donors	—	—	—	—	—	—	(584,561)	(584,561)	(584,561)
Total expenses by function	\$ <u>25,383,349</u>	<u>4,486,539</u>	<u>2,139,750</u>	<u>1,058,043</u>	<u>33,067,681</u>	<u>5,482,086</u>	<u>4,030,764</u>	<u>9,512,850</u>	<u>42,580,531</u>

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

For the year ended June 30, 2019, functional expenses are as follows:

	Program services					Supporting services			Total
	Opera	Recitals & Off Grand	LA Opera Connects	Young	Program subtotal	G&A	Fundraising	Supporting subtotal	6/30/2019
				Artist Program					
Salaries and artist fees	\$ 18,362,499	1,154,977	1,356,469	696,948	21,570,893	1,545,626	2,317,549	3,863,175	25,434,068
Retirement contributions	1,243,278	60,887	27,635	5,142	1,336,942	26,858	40,707	67,565	1,404,507
Other benefits and taxes	2,875,750	162,101	219,522	117,080	3,374,453	185,559	296,270	481,829	3,856,282
Materials, supplies, and equipment	134,386	293,470	47,465	838	476,159	119,455	7,902	127,357	603,516
Production expenses	1,763,231	550,079	48,690	1,508	2,363,508	12,396	6,010	18,406	2,381,914
Storage costs	363,212	17,804	13,793	6,839	401,648	23,544	3,535	27,079	428,727
Travel and accommodations	723,005	72,703	83,458	54,084	933,250	74,343	98,155	172,498	1,105,748
Services and professional fees	1,200,220	394,952	241,902	34,611	1,871,685	694,686	1,389,541	2,084,227	3,955,912
Advertising and marketing	347,954	79,118	58,208	307	485,587	1,182,355	223,785	1,406,140	1,891,727
Occupancy	1,683,685	65,790	50,503	6,128	1,806,106	101,666	49,339	151,005	1,957,111
Depreciation	181,615	18,755	29,200	6,552	236,122	103,062	46,328	149,390	385,512
Insurance	185,874	18,476	14,011	5,986	224,347	26,223	28,854	55,077	279,424
Interest	375,514	37,327	28,306	12,093	453,240	52,927	58,242	111,169	564,409
Less cost of direct benefits to donors	—	—	—	—	—	—	(458,712)	(458,712)	(458,712)
Total expenses									
by function	\$ <u>29,440,223</u>	<u>2,926,439</u>	<u>2,219,162</u>	<u>948,116</u>	<u>35,533,940</u>	<u>4,148,700</u>	<u>4,107,505</u>	<u>8,256,205</u>	<u>43,790,145</u>

These financial statements reflect expenses, which are attributable to multiple programs or supporting activities, requiring different allocation methods using a reasonable allocation basis that is consistently applied. For all departments which have salaries and benefits that support multiple programs and/or supporting services, salaries and benefits expenses are allocated on a time and effort basis. It is common for departments to support multiple programs; in these areas departmental expenses that are not directly attributed to a program are therefore allocated on a time and effort basis. Per ASU 2016-14, advertising expenses which directly relate to the promotion and sale of Opera, recitals or Off Grand tickets, are considered a general and administrative expense and are therefore counted accordingly under supporting services. For occupancy and depreciation, the Opera utilizes a square footage allocation method. For insurance and interest, and when these expenses are not directly allocated to a program or supporting function, the Opera allocates based on budget size.

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

**(6) Contributions Receivable**

Contributions receivable, including contributions receivable from the Opera's Board members, at June 30, 2020 and 2019, are expected to be received as follows:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 11,861,320	9,962,228
Two to five years	4,990,019	14,368,826
Thereafter	<u>14,961,686</u>	<u>15,322,832</u>
	31,813,025	39,653,886
Less discount to reflect contributions receivable at present value	<u>(4,560,738)</u>	<u>(5,585,753)</u>
Total contributions receivable	<u>\$ 27,252,287</u>	<u>34,068,133</u>
Contributions receivable	\$ 12,314,808	12,226,758
Contributions receivable from related parties	<u>14,937,479</u>	<u>21,841,375</u>
Total contributions receivable	<u>\$ 27,252,287</u>	<u>34,068,133</u>

**(7) Property, Plant, and Equipment**

Property, plant, and equipment, at cost, consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Technical equipment	\$ 4,343,691	4,254,507
Leasehold improvements	659,816	608,814
Equipment, furniture, and vehicles	525,864	525,251
Computers	2,058,283	2,012,967
Software	<u>1,697,636</u>	<u>1,688,271</u>
	9,285,290	9,089,810
Less accumulated depreciation	<u>(7,969,276)</u>	<u>(7,475,248)</u>
Total property, plant and equipment, net	<u>\$ 1,316,014</u>	<u>1,614,562</u>

Depreciation and amortization on property, plant, and equipment totaled \$494,028 and \$385,512 at June 30, 2020 and 2019, respectively.



## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(8) Loans 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, 2020 and 2019, with interest rates ranging up to 6.25%. The line of credit expired on November 30, 2020. Amounts outstanding under this agreement totaled \$6,280,000 and \$5,025,000 at June 30, 2020 and 2019, respectively.

On January 11, 2021 the bank approved an extension of the line of credit through November 30, 2021. Under the extension, the Opera can borrow up to the following limits: \$8,000,000 through February 28, 2021, \$6,000,000 for the period of March 1, 2021 through August 31, 2021 and \$8,000,000 for the period from September 1, 2021 through November 30, 2021. The borrowing has a variable interest rate of LIBOR plus 3% or the prime rate plus 0.75%, set at the discretion of the lender. In addition, the loan contains certain financial covenants that are consistent with the terms of the previous line of credit and include an overall outstanding debt limit for the Opera. At January 22, 2021, the outstanding balance on the line of credit is \$1,770,000.

Interest incurred on these borrowings totaled \$288,644 and \$391,721 for the fiscal years ended June 30, 2020 and 2019, respectively.

##### **(b) Loans Payable to Related Parties**

###### *(i) Loans from Board Members*

The Opera received interest free loans from Board members totaling \$2,250,000 during the fiscal year ended June 30, 2020, \$1,000,000 of which was repaid during the year and \$316,667 was forgiven during the year. Of the \$2,050,000 in loans payable to Board members at June 30, 2020, \$1,000,000 was payable to related parties that had outstanding pledges receivable totaling \$150,000.

The Opera received interest free loans from Board members totaling \$7,360,000 during the fiscal year ended June 30, 2019, \$6,360,000 of which was repaid during the year. Of the \$116,667 in loans payable to Board members at June 30, 2019, \$83,333 were payable to related parties that had outstanding pledges receivable totaling \$645,000.

###### *(ii) Loans from the California Community Foundation*

In 2018, 2016, and 2015, the Opera entered into three loan agreements with the California Community Foundation (CCF).

The first 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. On July 31, 2017, the loan agreement was amended to extend the September 15, 2017 payment date to March 30, 2018. On March 23, 2018, the loan agreement was amended to extend the March 30, 2018 payment date to March 30, 2019. On April 1, 2019, payment of \$500,000 was made and the loan agreement was amended to extend the remaining \$500,000 payment to March 31, 2020. On March 25, 2020, the loan agreement was amended to extend the March 31, 2020 payment date to March 31, 2021. The balance at June 30, 2020 on the first loan is \$500,000.

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

The second loan was entered in to 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. On March 23, 2018, the loan agreement was amended to extend the March 20, 2018 payment date to March 30, 2019. On April 12, 2019, the loan agreement was amended to extend the March 20, 2018 payment to March 31, 2020. On March 25, 2020, the loan agreement was amended to extend the March 31, 2020 payment date to March 31, 2021. The balance at June 30, 2020 on the second loan is \$1,000,000.

The third loan was entered in to on October 17, 2018, for \$1,000,000. The loan is due and payable in one installment on October 17, 2019, at an annual interest rate of 4% or 10% in the event of default. On October 16, 2019, the Opera made the final payment of \$1,000,000.

Interest incurred on these borrowings totaled \$80,000 and \$165,000 for the fiscal years ended June 30, 2020 and 2019, respectively.

*(iii) Loan Payment Schedule*

Based on the terms of the loans with Board members and CCF, all amounts outstanding at June 30, 2020, are due during fiscal year 2021. Accordingly, during fiscal year 2020, the Opera anticipates making payments of \$2,050,000 and \$1,500,000 on the loans from Board members and CCF, respectively.

## **(9) Commitments**

### **(a) Costume Shop and Storage Facilities**

The Opera had three noncancelable operating leases for its costume shop operations in the fiscal years ended June 30, 2020 and 2019.

A lease for one 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 the other costume shop storage facility commenced on May 1, 2015 for a period of five years and one month and expired on May 31, 2020.

A lease for an offsite storage facility that covers both technical and costume needs, commenced on August 15, 2019 for a period of six years and one-half month, and expires on August 31, 2025.

The Opera recognizes rent expense on a straight-line basis for shop facilities. Total rent expense (including common area charges of \$110,060 and \$139,850) was \$852,491 and \$654,298 for the fiscal years ended June 30, 2020 and 2019, respectively.

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

Minimum lease payments for both costume shop facilities are as follows:

Fiscal years:		
2020–2021	\$	739,892
2021–2022		762,709
2022–2023		782,906
2023–2024		803,619
2024–2025		732,691
Thereafter		<u>47,627</u>
	\$	<u>3,869,444</u>

#### **(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 that ended on July 1, 2010. Upon termination of the lease agreement, the term automatically extends 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, 2020 and 2019 totaled \$957,365 and \$990,595, respectively. Total annual rent under the lease agreement is 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, which approximates the facility usage. In addition, the Opera transmitted facility fees to PACLAC, on a per performance charge on ticket sales under the terms of the lease, of \$226,516 and \$270,000, during the fiscal years ended June 30, 2020 and 2019, respectively.

#### **(c) Future Contract Commitments**

In connection with future opera productions, the Opera has entered into various contracts at June 30, 2020. Such commitments are to be paid as follows as of June 30, 2020:

Fiscal years:		
2020–2021	\$	3,953,100
2021–2022		2,092,500
2022–2023		<u>1,110,000</u>
	\$	<u>7,155,600</u>

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

**(10) Net Assets**

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Contributions receivable restricted for passage of time	\$ 14,173,319	18,310,389
Contributions receivable restricted for the passage of time and specific purposes	9,518,975	7,392,305
Beneficial interest in perpetual trust	16,003,936	15,879,595
Beneficial interest in remainder trust	19,070,643	19,070,643
Restricted investments	<u>22,395,921</u>	<u>23,095,383</u>
	\$ <u>81,162,794</u>	<u>83,748,315</u>

The following summarizes the components of net assets with donor restrictions at June 30, 2020 and 2019:

<u>Net assets</u>	<u>With donor restrictions</u>		<u>Total</u>
	<u>Time and purpose restrictions<sup>2</sup></u>	<u>Restricted in perpetuity<sup>3</sup></u>	
Beginning balance at June 30, 2018	\$ 22,923,489	57,306,399	80,229,888
Contributions and special event support	7,062,395	5,439,484	12,501,879
Change in discount	2,059,096	(895,310)	1,163,786
Revenue released from restrictions	(10,525,439)	—	(10,525,439)
Distributions and net investment income	<u>378,201</u>	<u>—</u>	<u>378,201</u>
Ending balance at June 30, 2019	21,897,742	61,850,573	83,748,315
Contributions and special event support	6,346,027	376,141	6,722,168
Change in discount	668,990	429,268	1,098,258
Revenue released from restrictions	(9,490,802)	—	(9,490,802)
Distributions and net investment income	<u>(915,145)</u>	<u>—</u>	<u>(915,145)</u>
Ending balance at June 30, 2020	\$ <u>18,506,812</u>	<u>62,655,982</u>	<u>81,162,794</u>

<sup>2</sup> Net assets restricted by time or purpose are 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, these net assets are reclassified to net assets without donor restrictions 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 net assets without donor restrictions in the accompanying financial statements.

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

<sup>3</sup> Net assets restricted in perpetuity are 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.

Endowment assets restricted in perpetuity at June 30, 2020 and 2019 are subject to donor-imposed restrictions that the principal will be maintained in perpetuity. Investment income generated from the endowment funds continues to be reflected as a component of net assets with donor restrictions until appropriated by the Board to support the general operations of the Opera.

#### **(11) 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 donor-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.

Accumulated but unspent earnings generated by the endowment are also reflected as net assets with donor restrictions 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

## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

- (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 2020, 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.

All of the Opera's endowment net assets for the fiscal years ended June 30, 2020 and 2019, are categorized as donor restricted. The Opera does not have any Board-designated endowments as of June 30, 2020 and 2019.

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2020 and 2019, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets:			
Balance, July 1, 2018	\$ —	23,111,523	23,111,523
Investment return:			
Investment income	—	29,521	29,521
Net unrealized and realized gains and losses	—	624,209	624,209
Total investment return	<u>—</u>	<u>653,730</u>	<u>653,730</u>
Contributions	—	180,000	180,000
Amounts appropriated for expenditure	—	<u>(829,544)</u>	<u>(829,544)</u>
Total expenditures and repayments	<u>—</u>	<u>(649,544)</u>	<u>(649,544)</u>
Balance, June 30, 2019	<u>—</u>	<u>23,115,709</u>	<u>23,115,709</u>
Investment return:			
Investment income	—	38,835	38,835
Net unrealized and realized gains and losses	—	76,600	76,600
Total investment return	<u>—</u>	<u>115,435</u>	<u>115,435</u>
Contributions	—	176,800	176,800
Amounts appropriated for expenditure	—	<u>(1,012,023)</u>	<u>(1,012,023)</u>
Total expenditures and repayments	<u>—</u>	<u>(835,223)</u>	<u>(835,223)</u>
Balance, June 30, 2020	<u>\$ —</u>	<u>22,395,921</u>	<u>22,395,921</u>

**(12) 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 matters that will have a material effect on the financial position or changes in net assets of the Opera.

**LOS ANGELES OPERA COMPANY**

Notes to Financial Statements

June 30, 2020 and 2019

**(13) 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, 2020 and 2019, 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, 2020 and 2019, totaled \$135,882 and \$131,393, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension plans. Contributions to these plans totaled \$1,129,819 and \$1,267,227 for the fiscal years ended June 30, 2020 and 2019, respectively. Payments to these plans are made and recorded as incurred.

**(14) Liquidity and Availability**

The Opera has the following financial assets available as of the statements of financial position to meet cash needs for general expenditures within the following year:

	2020	2019
Financial assets, at year-end:		
Cash and cash equivalents	\$ 410,592	1,460,920
Accounts receivable	2,647,085	784,588
Current contributions receivable	11,861,320	9,962,228
Total financial assets	14,918,997	12,207,736
Less those unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Funds set aside for Simulcast <sup>4</sup>	(1,025,000)	(1,025,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 13,893,997	11,182,736



## LOS ANGELES OPERA COMPANY

### Notes to Financial Statements

June 30, 2020 and 2019

<sup>4</sup> The Opera receives funding from the County of Los Angeles to present a live simulcast of one opera each year to two different locations within the county. The simulcast is available to the public free of charge.

As part of the Opera's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Opera's primary funding sources are receipts of annual giving pledged in both prior and future periods, ticket sales, and endowment distributions. Accordingly, the Opera manages its liquidity needs through timing the receipt of the above funding sources.

As described in note 11, the Opera maintains a donor-restricted endowment of \$22,395,921. Accordingly, none of the endowment assets are available for general expenditures and are not considered in the above determination of financial assets available. However, in accordance with the endowment gifts agreements and UPMIFA, a spending rate of 5% of the 12-quarter rolling average of the endowment is available for general expenditures. Hence, \$1,012,023 and \$829,544 has been designated for general expenditures for the years ended June 30, 2020 and 2019, respectively.

As described in note 8, the Opera also maintains a line of credit with a limit of \$8,000,000, which can be used during times of liquidity needs. At June 30, 2020, the Opera had utilized \$6,280,000 of the line of credit, resulting in \$1,720,000 available to be used in future periods. As also described in note 8, from time to time, it is necessary for the Opera to borrow additional funds in the form of donor loans, to cover unanticipated cash needs. The line of credit and the donor loans are used to provide additional liquidity, as needed.

#### **(15) Subsequent Events**

The Opera has evaluated subsequent events and transactions for potential recognition or disclosure through January 22, 2021, the date the accompanying financial statements were available to be issued and identified the following events.

##### **(a) PPP Loan**

On October 6, 2020, the Opera submitted its application for forgiveness of the PPP loan. On November 25, 2020, the Opera submitted additional documentation required by the Small Business Administration, including form 3510. At the date that these financial statements were available to be issued, the application is under review by the Small Business Administration.

##### **(b) Future Contract Commitments**

As of November 9, 2020, the Board approved the cancellation of the FY20-21 performance season due to the continuing global pandemic and the resulting local restrictions. Commitments for these performances will be applied to future seasons, including the 2021-22 season, where possible. Commitments not reassigned to the FY21-22 season will be honored in a future season and are reflected in the note 9(c).

##### **(c) Beneficial Interest in Remainder Trust**

On December 9, 2020, the Opera reached an agreement with the other beneficiary of the beneficial interest in remainder trust that, upon court approval, converts the trust to a qualified charitable trust. Once approved by the court, the Opera will be the sole beneficiary of the remaining assets of the trust.