



LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2021 and 2020

(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:

We have audited the accompanying financial statements of the Los Angeles Opera Company, which comprise the statements of financial position as of June 30, 2021 and 2020, 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 the Los Angeles Opera Company as of June 30, 2021 and 2020, 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
December 3, 2021

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2021 and 2020

Assets	2021	2020
Cash and cash equivalents	\$ 1,911,398	410,592
Accounts receivable	3,505,194	2,647,085
Contributions receivable (note 6)	19,953,917	12,314,808
Contributions receivable from related parties (note 6)	13,905,946	14,937,479
Prepaid production costs	1,396,634	634,806
Prepaid expenses, deposits, and other assets	814,119	559,970
Property, plant, and equipment, net (note 7)	1,210,772	1,316,014
Beneficial interest in perpetual trust (note 2)	19,391,602	16,003,936
Beneficial interest in remainder trust (note 2)	19,575,163	19,070,643
Restricted investments (note 4)	29,749,102	22,395,921
	\$ 111,413,847	90,291,254
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 4,542,073	4,532,929
Deferred ticket sales	5,146,884	4,426,893
Loans payable (note 8)	4,750,000	6,280,000
Loans payable to related parties (note 8)	2,450,000	3,550,000
	16,888,957	18,789,822
Commitments and contingencies (notes 9 and 12)		
Net assets:		
Without donor restrictions	(6,508,425)	(9,661,362)
With donor restrictions (note 10)	101,033,315	81,162,794
Total net assets	94,524,890	71,501,432
	\$ 111,413,847	90,291,254

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2021 and 2020

	2021			2020		
	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
Ticket sales and fees – recitals and other performances	—	—	—	1,743,100	—	1,743,100
Other earned revenue	3,259,653	—	3,259,653	3,551,086	—	3,551,086
Total earned revenue	3,259,653	—	3,259,653	11,742,547	—	11,742,547
Support:						
Foundations, corporations, and individuals	9,664,484	10,640,803	20,305,287	12,306,595	6,233,072	18,539,667
Government grants	1,539,480	6,147,982	7,687,462	4,303,445	1,114,900	5,418,345
Donated materials and services	482,658	—	482,658	1,136,681	—	1,136,681
Change in value of beneficial interest in perpetual trust	—	3,387,666	3,387,666	—	124,341	124,341
Change in value of beneficial interest in remainder trust	—	504,520	504,520	—	—	—
Change in discount to recognize pledges at present value	—	575,853	575,853	(73,243)	1,098,258	1,025,015
Net support from foundations, corporations, individuals, and governments	11,686,622	21,256,824	32,943,446	17,673,478	8,570,571	26,244,049
Special events:						
Revenue	1,063,435	—	1,063,435	157,882	299,160	457,042
Less costs of direct benefits to donors	(234,173)	—	(234,173)	(584,561)	—	(584,561)
Net revenue from special events	829,262	—	829,262	(426,679)	299,160	(127,519)
Total support	12,515,884	21,256,824	33,772,708	17,246,799	8,869,731	26,116,530
Net assets released from restrictions						
Revenue	7,031,655	(7,031,655)	—	9,490,802	(9,490,802)	—
Distribution (note 2)	1,540,474	(1,540,474)	—	1,454,013	(1,454,013)	—
Special events	150,000	(150,000)	—	607,315	(607,315)	—
Total support and net assets released from restrictions	8,722,129	(8,722,129)	—	11,552,130	(11,552,130)	—
Total revenue and support	24,497,666	12,534,695	37,032,361	40,541,476	(2,682,399)	37,859,077
Expenses (note 5):						
Programs	14,720,068	—	14,720,068	33,067,681	—	33,067,681
Management and general	3,630,939	—	3,630,939	5,482,086	—	5,482,086
Fundraising	2,901,464	—	2,901,464	4,030,764	—	4,030,764
Total expenses	21,252,471	—	21,252,471	42,580,531	—	42,580,531
Change in net assets from operating activities	3,245,195	12,534,695	15,779,890	(2,039,055)	(2,682,399)	(4,721,454)
Nonoperating items:						
Restricted investment income	—	7,335,826	7,335,826	—	96,878	96,878
Other investment income	—	—	—	8,623	—	8,623
Uncollectible pledges receivable	(92,258)	—	(92,258)	(1,173,926)	—	(1,173,926)
Change in net assets	3,152,937	19,870,521	23,023,458	(3,204,358)	(2,585,521)	(5,789,879)
Net assets at beginning of year	(9,661,362)	81,162,794	71,501,432	(6,457,004)	83,748,315	77,291,311
Net assets at end of year	\$ (6,508,425)	101,033,315	94,524,890	(9,661,362)	81,162,794	71,501,432

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY
Statements of Cash Flows
Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 23,023,458	(5,789,879)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	463,707	494,028
Total gains in beneficial interest in perpetual trust (realized and unrealized), net	(3,701,903)	(109,208)
Change in value in beneficial interest in remainder trust	(504,520)	—
Total gains or losses, restricted investments (realized and unrealized), net	(7,321,363)	(115,435)
Contributions restricted in perpetuity	(1,258,055)	(633,923)
Change in the present value of contributions receivable	(575,853)	(1,025,015)
Uncollectible contributions receivable	92,258	1,173,926
Forgiveness of loans from related parties	—	(316,667)
Changes in operating assets and liabilities:		
Accounts receivable	(858,109)	(1,862,497)
Contributions receivable	(6,123,981)	6,666,935
Prepaid production costs	(761,828)	304,651
Prepaid expenses and deposits	(254,149)	(106,263)
Beneficial interest in perpetual trust	492,292	441,990
Accounts payable and accrued liabilities	9,144	(746,525)
Deferred ticket sales	719,991	(1,747,989)
Net cash provided by (used in) operating activities	<u>3,441,089</u>	<u>(3,371,871)</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(358,465)	(195,480)
Purchases of investments	(1,080,000)	(176,800)
Distributions from restricted investments	1,048,182	1,012,023
Net cash provided by investing activities	<u>(390,283)</u>	<u>639,743</u>
Cash flows from financing activities:		
Contributions restricted for investment in perpetuity	1,080,000	176,800
Proceeds from loans payable	13,245,000	16,880,000
Repayments of loans payable	(15,875,000)	(15,375,000)
Net cash (used in) provided by in financing activities	<u>(1,550,000)</u>	<u>1,681,800</u>
Net increase (decrease) in cash and cash equivalents	1,500,806	(1,050,328)
Cash and cash equivalents at beginning of year	<u>410,592</u>	<u>1,460,920</u>
Cash and cash equivalents at end of year	<u>\$ 1,911,398</u>	<u>410,592</u>
Supplemental disclosures of cash flow information:		
Interest paid during the year	\$ 159,511	368,664
Donated materials and services	482,658	1,136,681

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2021 and 2020

(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) 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.

(c) 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 3.94%. 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.

(d) 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.

(e) 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.

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Notes to Financial Statements

June 30, 2021 and 2020

(f) 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, 2021 and 2020, the value of significant contributed goods was \$482,658 and \$1,136,681, respectively, and includes legal services, marketing expenses, musical instruments, and production supplies.

(g) Expense Recognition

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

(h) Income Taxes

The Opera is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Opera is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision for unrelated business income tax was recorded at June 30, 2021 or 2020.

(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, 2021, the Opera had cash in banks of \$1,565,000, including individual accounts carrying balances in excess of Federal Deposit Insurance Corporation insurance limits. At June 30, 2020, the Opera's balance of cash in individual bank accounts were not in excess of Federal Deposit Insurance Corporation insurance limits.

(j) Restricted Investments

Restricted investments at June 30, 2021 and 2020 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, 2021 and 2020, 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.

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Notes to Financial Statements

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(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 Codification (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 \$6,394,035 and \$5,954,933 as of June 30, 2021 and 2020, respectively.

The Opera received new gifts of beneficial interests in perpetual trust totaling \$178,055 and \$457,123 as of June 30, 2021 and 2020, respectively. No transfers into or out of Level 3 occurred during the year.

(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 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 FASB ASC Topic 820, 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 Opera made no purchases or issuances of interests in the remainder trust during the year, and there were no transfers into or out of Level 3 during the year.

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Notes to Financial Statements

June 30, 2021 and 2020

(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 statements of activities are as follows:

	<u>2021</u>	<u>2020</u>
Restricted investments	\$ 1,048,182	1,012,023
Beneficial interest in perpetual trust	<u>492,292</u>	<u>441,990</u>
Total distribution	<u>\$ 1,540,474</u>	<u>1,454,013</u>

(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) New Accounting Standards

In August 2018, the FASB issued Accounting Standards Update (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 ended June 30, 2021, with retrospective application required. The adoption of this accounting guidance did not have a material effect on the 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, 2023. The Opera is currently evaluating the effects the adoption of this statement will have on the financial statements.

(p) Current Environment

The coronavirus (COVID 19) pandemic resulted in cancellation of all scheduled opera performances during the fiscal year ended June 2021. The Opera has applied for and received funding in the form of Paycheck Protection Program (PPP) loans as provided by the Coronavirus Aid, Relief, and Economic Security Act of 2020. In April 2020, the Opera was approved for a PPP loan totaling \$4,104,545 through the Small Business Administration. Subsequently, in March 2021, the Opera applied for an additional PPP loan of \$2,000,000 as allowed by the Small Business Administration. The PPP loan proceeds have been used to pay payroll, lease, utility, and interest payments eligible under the loan program. In October 2020, the Opera was notified that the Small Business Administration had approved forgiveness of the loan totaling \$4,104,545 and the related accrued interest. Pursuant to the

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forgiveness guidelines and under the Opera's accounting policies, the full amount of the loans has been recognized as governments grants in the statements of activities in the year that eligible expenditures were incurred.

The Opera resumed rehearsals and performances in August 2021, implementing County of Los Angeles Department of Health compliance protocols. Five operas are scheduled for the fiscal year. Ticket sales revenue has not yet reached pre pandemic levels, but contribution revenue has not been adversely impacted. The Opera continues to monitor the course of the pandemic and is prepared to take the measures required to address potential future challenges.

(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, which prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

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

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

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

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

The Opera follows the measurement provisions of ASC Topic 820, to value the Opera's restricted investments with the Music Center Foundation. ASC Topic 820 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.

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Notes to Financial Statements

June 30, 2021 and 2020

(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 committees.

The following table summarizes the underlying investments held in the unitized investment pool with the Foundation at June 30, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 522,666	699,297
Intermediate-term bond fund	1,303,118	1,198,028
Large-and mid-cap equities	12,216,091	6,632,611
Small-cap equities	3,686,571	2,809,565
International equity	2,635,953	2,518,071
Emerging market equities	3,123,776	1,877,078
Equity hedge funds	3,610,393	3,054,533
Absolute return funds	2,650,534	3,606,738
Restricted investments with Music Center Foundation	\$ 29,749,102	22,395,921

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 Topic 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, 2021 or 2020.

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Notes to Financial Statements

June 30, 2021 and 2020

(5) Functional Expenses

For the year ended June 30, 2021, functional expenses are as follows:

	Program services					Supporting services			Total
	Opera	Recitals and Off Grand	LA Opera Connects	Young Artist Program	Program subtotal	G&A	Fundraising	Supporting subtotal	
Salaries and artist fees	\$ 4,059,341	1,642,576	1,061,228	737,311	7,500,456	1,677,563	1,937,475	3,615,038	11,115,494
Retirement contributions	159,106	91,639	19,082	6,164	275,991	22,732	38,094	60,826	336,817
Other benefits and taxes	943,162	252,097	181,681	115,715	1,492,655	210,301	265,086	475,387	1,968,042
Materials, supplies, and equipment	49,977	16,252	21,321	1,048	88,598	60,989	8,349	69,338	157,936
Production expenses	138,728	276,653	8,810	3,728	427,919	430	3,040	3,470	431,389
Storage costs	511,223	38,966	8,544	5,494	564,227	12,677	302	12,979	577,206
Travel and accommodations	86,385	3,630	14,876	8,287	113,178	21,747	16,828	38,575	151,753
Services and professional fees	516,523	745,352	154,985	16,437	1,433,297	1,107,984	500,564	1,608,548	3,041,845
Advertising and marketing	329,531	93,551	46,269	73	469,424	89,964	169,586	259,550	728,974
Occupancy	1,186,504	509,022	32,600	5,633	1,733,759	132,570	46,454	179,024	1,912,783
Depreciation	134,451	62,549	42,064	9,439	248,503	148,467	66,737	215,204	463,707
Insurance	148,456	68,279	29,114	16,635	262,484	118,895	59,807	178,702	441,186
Interest	61,975	28,504	12,154	6,944	109,577	26,620	23,314	49,934	159,511
Less cost of direct benefits to donors	—	—	—	—	—	—	(234,172)	(234,172)	(234,172)
Total expenses by function	\$ 8,325,362	3,829,070	1,632,728	932,908	14,720,068	3,630,939	2,901,464	6,532,403	21,252,471

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

	Program services					Supporting services			Total
	Opera	Recitals and Off Grand	LA Opera Connects	Young Artist Program	Program subtotal	G&A	Fundraising	Supporting subtotal	
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	23,139,883
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	\$ 25,383,349	4,486,539	2,139,750	1,058,043	33,067,681	5,482,086	4,030,764	9,512,850	42,580,531

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 that have salaries, benefits and other supporting services that support multiple programs, the expenses are allocated on a time and effort basis. Advertising expenses which directly relate to the promotion and sale of Opera, recital, 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

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when these expenses are not directly allocated to a program or supporting function, the Opera allocates based on budget size.

(6) Contributions Receivable

Contributions receivable, including contributions receivable from the Opera's board members, at June 30, 2021 and 2020 are expected to be received as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 20,733,611	11,861,320
Two to five years	3,162,500	4,990,019
Thereafter	<u>13,948,637</u>	<u>14,961,686</u>
	37,844,748	31,813,025
Less discount to reflect contributions receivable at present value	<u>(3,984,885)</u>	<u>(4,560,738)</u>
Total contributions receivable	<u>\$ 33,859,863</u>	<u>27,252,287</u>
Contributions receivable	\$ 19,953,917	12,314,808
Contributions receivable from related parties	<u>13,905,946</u>	<u>14,937,479</u>
Total contributions receivable	<u>\$ 33,859,863</u>	<u>27,252,287</u>

(7) Property, Plant, and Equipment

Property, plant, and equipment, at cost, consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Technical equipment	\$ 4,653,853	4,343,691
Leasehold improvements	660,215	659,816
Equipment, furniture, and vehicles	532,871	525,864
Computers	2,099,180	2,058,283
Software	<u>1,697,636</u>	<u>1,697,636</u>
	9,643,755	9,285,290
Less accumulated depreciation	<u>(8,432,983)</u>	<u>(7,969,276)</u>
Total property, plant, and equipment, net	<u>\$ 1,210,772</u>	<u>1,316,014</u>

Depreciation and amortization on property, plant, and equipment totaled \$463,707 and \$494,028 for the years ended June 30, 2021 and 2020, respectively.

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(8) Loans Payable

(a) Line of Credit

The Opera has a line of credit agreement that carries a maximum borrowing limit of \$8,000,000 at June 30, 2021 and 2020 with an interest rate of 3.00% above the London InterBank Offered Rate (LIBOR) or prime rate plus 0.75%. Under the line of credit agreement, the Opera had borrowing limits as follows: \$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 Opera drew a total of \$4,845,000 on the line during the year. As of June 30, 2021, there was no outstanding balance on the line of credit. The line of credit expired on November 30, 2021. In December 2021, the line of credit was renewed with the same terms and expires on November 30, 2022.

Interest incurred on the line-of-credit totaled \$69,773 and \$288,664 for the fiscal years ended June 30, 2021 and 2020, respectively.

(b) Term Loan

The Opera entered into a \$5,000,000 term loan agreement on March 31, 2021. Quarterly principal payments are required, which will retire the loan on its maturity date of March 31, 2026. As of June 30, 2021, the term loan balance was \$4,750,000. The loan requires monthly interest payments equal to LIBOR index plus 3%.

Future principal payments required on the term loan are as follows:

Fiscal year ended June 30:	
2022	\$ 1,000,000
2023	1,000,000
2024	1,000,000
2025	1,000,000
2026	<u>750,000</u>
Total	\$ <u>4,750,000</u>

In conjunction with this loan, the Opera entered into an interest rate swap with the lender. Under the terms of the interest rate swap, the Opera receives variable interest rate payments equal to LIBOR index plus 3% and makes fixed interest rate payments 3.89%. Thereby creating the equivalent of fixed-rate debt for the loan. The swap agreement allows the Opera to avoid the variability in interest payments due to changes in interest rates, which allows the Opera to manage fluctuations in cash flows resulting from changes in the benchmark interest rate of LIBOR. The Opera incurred interest of \$50,031 on the term loan for the fiscal year ended June 30, 2021.

(c) Loan Payable to Related Parties

The Opera received interest free loans from board members totaling \$3,400,000 during the fiscal year ended June 30, 2021, and repaid a total of \$3,000,000 which includes payments on both loans

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received during the year ended June 30, 2021 and loans outstanding at June 30, 2020. The loan payable balance as of June 30, 2021 and 2020 was \$2,450,000 and \$2,050,000, respectively.

Additionally, the Opera has received loans from California Community Foundation (CCF) beginning in 2015. The annual interest rate on the loans was 4% or 10% in the event of default. The balance outstanding on the loans was \$1,500,000 at June 30, 2020. The loans were paid in full during the fiscal year ended June 30, 2021, and no balance remains at that date.

Interest incurred on these borrowings totaled \$39,707 and \$80,000 for the fiscal years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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 off-site 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 \$146,037 and \$110,060) was \$873,298 and \$852,491 for the fiscal years ended June 30, 2021 and 2020, respectively.

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

Fiscal years:		
2021–2022	\$	762,709
2022–2023		782,906
2023–2024		803,619
2024–2025		732,691
2025–2026		<u>47,627</u>
	\$	<u><u>3,129,552</u></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

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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, 2021 and 2020 totaled \$906,150 and \$957,365, 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, during the fiscal year ended June 30, 2020 and none during the fiscal year ended June 30, 2021.

(c) Future Contract Commitments

In connection with future opera productions, the Opera has entered into various contracts at June 30, 2021. Such commitments are to be paid as follows as of June 30, 2021:

Fiscal years:	
2021–2022	\$ 2,092,500
2022–2023	<u>1,110,000</u>
	<u>\$ 3,202,500</u>

(10) Net Assets

Net assets with donor restrictions at June 30, 2021 and 2020 are available for the following purposes or periods:

	2021	2020
Contributions receivable restricted for passage of time	\$ 23,352,548	14,173,319
Contributions receivable restricted for the passage of time and specific purposes	8,964,900	9,518,975
Beneficial interest in perpetual trust	19,391,602	16,003,936
Beneficial interest in remainder trust	19,575,163	19,070,643
Restricted investments	<u>29,749,102</u>	<u>22,395,921</u>
	<u>\$ 101,033,315</u>	<u>81,162,794</u>

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The following summarizes the components of net assets with donor restrictions at June 30, 2021 and 2020:

Net assets	With donor restrictions		
	Time and purpose restrictions²	Restricted in perpetuity³	Total
Beginning 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	(915,145)	—	(915,145)
Ending balance at June 30, 2020	18,506,812	62,655,982	81,162,794

Net assets	With donor restrictions		
	Time and purpose restrictions²	Restricted in perpetuity³	Total
Contributions and special event support	\$ 15,210,465	4,948,185	20,158,650
Change in discount	462,854	112,999	575,853
Revenue released from restrictions	(7,031,655)	—	(7,031,655)
Distributions and net investment income	6,167,673	—	6,167,673
Ending balance at June 30, 2021	\$ 33,316,149	67,717,166	101,033,315

² 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.

³ 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, 2021 and 2020 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.

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(11) 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 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
- (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
- (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.

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(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 2021, 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, 2021 and 2020 are categorized as donor restricted. The Opera does not have any board-designated endowments as of June 30, 2021 or 2020.

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Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2021 and 2020 are as follows:

Balance, June 30, 2019	\$ 23,115,709
Investment return:	
Investment income	38,835
Net unrealized and realized gains and losses	<u>76,600</u>
Total investment return	<u>115,435</u>
Contributions	176,800
Amounts appropriated for expenditure	<u>(1,012,023)</u>
Total expenditures and repayments	<u>(835,223)</u>
Balance, June 30, 2020	<u>22,395,921</u>
Investment return:	
Investment income	85,942
Net unrealized and realized gains and losses	<u>7,235,421</u>
Total investment return	<u>7,321,363</u>
Contributions	1,080,000
Amounts appropriated for expenditure	<u>(1,048,182)</u>
Total expenditures and repayments	<u>31,818</u>
Balance, June 30, 2021	\$ <u><u>29,749,102</u></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.

(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

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eligible employees' compensation. For the fiscal years ended June 30, 2021 and 2020, the contribution rate was 2%. The vested percentage for each year of service is as follows:

<u>Year(s) of service</u>	<u>Vested percentage</u>
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, 2021 and 2020, totaled \$118,161 and \$135,882, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension plans. Contributions to these plans totaled \$218,656 and \$1,129,819 for the fiscal years ended June 30, 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Financial assets, at year-end:		
Cash and cash equivalents	\$ 1,911,398	410,592
Accounts receivable	3,505,194	2,647,085
Current contributions receivable	<u>20,733,611</u>	<u>11,861,320</u>
Total financial assets	26,150,203	14,918,997
Less those unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Funds set aside for Simulcast ⁴	<u>(1,675,000)</u>	<u>(1,025,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 24,475,203</u>	<u>13,893,997</u>

⁴ The Opera receives funding from the County of Los Angeles to present a live simulcast of one opera each year to locations within the County as well as funding for other special programs. These programs are available to the public free of charge.

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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 \$29,749,102. 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, \$1,048,182 and \$1,012,023 have been designated for general expenditures for the years ended June 30, 2021 and 2020, 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, 2021, the Opera had no amount of the line of credit outstanding. 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 December 3, 2021, the date the accompanying financial statements were available to be issued and identified the following events.

(a) PPP Loan

On October 6, 2021, the Small Business Administration notified the Opera it had approved forgiveness of the loan totaling \$2,000,000 and any accrued interest.

(b) Shuttered Venues Operators Grants

In August 2021, the Small Business Administration notified the Opera it is eligible for a Shuttered Venues Operators Grant (SVOG) supplemental award. The Opera applied for an SVOG Supplemental Award in the amount of \$3,200,000 on August 29, 2021 and received notice that the grant was approved on September 22, 2021. Disbursement of the grant is still pending as of the date these financial statements are available to be issued.