



LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2023 and 2022

(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:

Opinion

We have audited the financial statements of the Los Angeles Opera Company (the Opera), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Opera as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Opera and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Opera's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Opera's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Los Angeles, California
November 29, 2023

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2023 and 2022

Assets	2023	2022
Cash and cash equivalents	\$ 396,418	2,782,116
Accounts receivable	289,873	2,000,410
Contributions receivable (note 6)	28,026,092	31,687,684
Prepaid expenses, deposits and other assets	3,129,175	2,479,830
Property, plant, and equipment, net (note 7)	1,510,469	1,082,110
Beneficial interest in perpetual trust (note 2)	18,212,480	17,868,451
Beneficial interest in remainder trust (note 2)	19,700,000	19,575,163
Investments (note 4)	28,996,591	24,230,609
Total assets	\$ 100,261,098	101,706,373
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 7,571,485	5,823,397
Deferred ticket sales	5,135,586	4,747,118
Loans payable and line of credit (note 8)	5,650,000	3,750,000
Loans payable to related parties (note 8)	—	33,334
Total liabilities	18,357,071	14,353,849
Commitments and contingencies (notes 2 and 9)		
Net assets (accumulated deficit):		
Net assets (accumulated deficit) without donor restrictions	(12,724,093)	(7,821,462)
Net assets with donor restrictions (note 10)	94,628,120	95,173,986
Total net assets	81,904,027	87,352,524
Total liabilities and net assets	\$ 100,261,098	101,706,373

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2023 and 2022

	2023			2022		
	Net assets without donor restrictions	Net assets with donor restrictions	Total	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenue and support:						
Earned revenue:						
Ticket sales and fees – opera season	\$ 9,399,258	—	9,399,258	7,147,280	—	7,147,280
Ticket sales and fees – recitals and other performances	839,555	—	839,555	955,868	—	955,868
Other earned revenue	4,702,461	—	4,702,461	7,872,497	—	7,872,497
Total earned revenue	14,941,274	—	14,941,274	15,975,645	—	15,975,645
Support:						
Foundations, corporations, and individuals	20,911,636	2,952,974	23,864,610	15,389,706	7,587,917	22,977,623
Government grants	627,039	162,420	789,459	4,168,846	650,000	4,818,846
Contributed non-financial assets	461,329	—	461,329	656,858	—	656,858
Change in discount to recognize pledges at present value	—	303,015	303,015	—	386,005	386,005
Net support from foundations, corporations, individuals, and governments	22,000,004	3,418,409	25,418,413	20,215,410	8,623,922	28,839,332
Special events:						
Revenue	1,290,565	—	1,290,565	3,689,308	—	3,689,308
Less costs of direct benefits to donors	(815,242)	—	(815,242)	(1,373,417)	—	(1,373,417)
Net revenue from special events	475,323	—	475,323	2,315,891	—	2,315,891
Total support	22,475,327	3,418,409	25,893,736	22,531,301	8,623,922	31,155,223
Net assets released from restrictions						
Revenue	5,784,030	(5,784,030)	—	6,281,013	(6,281,013)	—
Distributions (note 2)	1,768,236	(1,768,236)	—	1,686,634	(1,686,634)	—
Total support and net assets released from restrictions	7,552,266	(7,552,266)	—	7,967,647	(7,967,647)	—
Total revenue and support	44,968,867	(4,133,857)	40,835,010	46,474,593	656,275	47,130,868
Expenses (note 5):						
Programs	40,574,330	—	40,574,330	37,178,455	—	37,178,455
Management and general	4,858,222	—	4,858,222	5,732,181	—	5,732,181
Fundraising	4,726,502	—	4,726,502	4,876,994	—	4,876,994
Total expenses	50,159,054	—	50,159,054	47,787,630	—	47,787,630
Change in net (deficit)/assets from operating activities	(5,190,187)	(4,133,857)	(9,324,044)	(1,313,037)	656,275	(656,762)
Nonoperating items:						
Investment income/(loss)	—	90,968	90,968	—	(4,992,453)	(4,992,453)
Realized and unrealized gain/(loss)	287,556	3,497,023	3,784,579	—	(1,523,151)	(1,523,151)
Change in net (deficit)/assets	(4,902,631)	(545,866)	(5,448,497)	(1,313,037)	(5,859,329)	(7,172,366)
Net (deficit)/assets at beginning of year	(7,821,462)	95,173,986	87,352,524	(6,508,425)	101,033,315	94,524,890
Net (deficit)/assets at end of year	\$ (12,724,093)	94,628,120	81,904,027	(7,821,462)	95,173,986	87,352,524

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (5,448,497)	(7,172,366)
Adjustments to reconcile change in net assets/(deficit) to net cash (used in)/provided by operating activities:		
Depreciation	446,740	505,451
Total losses (gains) in beneficial interest in perpetual trust (realized and unrealized), net	(828,625)	1,540,893
Change in value in beneficial interest in remainder trust	(124,837)	—
Total losses (gains) in restricted investments (realized and unrealized), net	(2,935,662)	4,994,701
Contributions restricted in perpetuity	(613,960)	(1,180,584)
Change in the present value of contributions receivable	303,015	386,005
Uncollectible contributions receivable	—	25,000
Forgiveness of loans from related parties	—	(16,666)
Changes in operating assets and liabilities:		
Accounts receivable	1,710,537	1,504,784
Contributions receivable	3,358,577	1,761,174
Prepaid Expenses, Deposits and Other Assets	(649,345)	(269,077)
Accounts payable and accrued liabilities	1,748,088	1,281,324
Deferred ticket sales	388,468	(399,766)
Net cash (used in)/provided by operating activities	(2,645,501)	2,960,873
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(875,099)	(376,789)
Purchases of investments	(3,000,000)	(630,000)
Distributions from restricted investments	1,169,680	1,153,792
Distributions from beneficial interest in perpetual trust	598,556	532,842
Net cash (used in)/provided by investing activities	(2,106,863)	679,845
Cash flows from financing activities:		
Contributions restricted for investment in perpetuity	500,000	630,000
Proceeds from loans payable	2,900,000	—
Repayments of loans payable	(1,033,334)	(3,400,000)
Net cash provided by/(used in) financing activities	2,366,666	(2,770,000)
Net (decrease)/increase in cash and cash equivalents	(2,385,698)	870,718
Cash and cash equivalents at beginning of year	2,782,116	1,911,398
Cash and cash equivalents at end of year	\$ 396,418	2,782,116
Supplemental disclosures of cash flow information:		
Interest paid during the year	\$ 280,335	174,854
Contributed non-financial assets	461,329	656,858

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2023 and 2022

(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 Receivables

Contributions receivables are reported at the present value of expected future cash flows using fair value discount rates ranging from 0.15% to 5.35%. Life expectancies for gifts due upon donor’s death are reevaluated annually using the 2012 Individual Annuity Reserving table. Contributions receivables 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.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

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(f) **Contributed Non-Financial Assets**

The value of significant contributed non-financial assets are reflected as contributions in the financial statements at the fair value of such goods at the date of contribution.

Contributed non-financial assets 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. The Opera's policy is to utilize the contributed non-financial assets as soon as possible. For the years ended June 30, 2023 and 2022, all non-financial assets were utilized during each period and the value of the services was based on the respective rates of each service provider.

Contributed nonfinancial assets recognized within the consolidated statement of activities for the years ended June 30, 2023 and 2022 include:

	<u>2023</u>	<u>2022</u>
Legal services	\$ 325,138	416,413
Advertising	84,070	187,750
Production equipment rentals	12,585	27,075
Food and beverage	39,036	25,620
Other	500	—
Total	<u>\$ 461,329</u>	<u>656,858</u>

(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, 2023 or 2022.

(i) **Concentration of Risks**

The Opera is currently not exposed to credit loss for the amount of cash in excess of the federally insured limit of \$250,000. At June 30, 2023, the Opera had cash in banks of \$636,195. At June 30, 2022, the Opera had cash in banks of \$2,799,058, including individual accounts carrying balances in excess of Federal Deposit Insurance Corporation insurance limits.

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Notes to Financial Statements

June 30, 2023 and 2022

(j) Investments

The Opera's investments consist of a board designated endowment of \$2,787,556 at June 30, 2023 and donor-restricted investments of \$26,209,035 and \$24,230,609 at June 30, 2023 and 2022, respectively. The Opera did not have any board designated endowment investments at June 30, 2022. The Opera records its investments at fair value with unrealized and realized gains and losses included in the statement of activities. Interest income is recorded when earned. Investment purchases and sales are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date.

The restricted investments 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, 2023 and 2022, all restricted 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.

(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 measured 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 \$6,312,286 and \$6,500,737 as of June 30, 2023 and 2022, respectively.

The Opera received new gifts of beneficial interests in perpetual trust totaling \$113,960 and \$550,584 as of June 30, 2023 and 2022, 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 measured annually. Subsequent changes in the value of the underlying assets will be recorded in the accompanying statements of

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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.

(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:

	2023	2022
Restricted investments	\$ 1,169,680	1,153,792
Beneficial interest in perpetual trust	598,556	532,842
Total distribution	\$ 1,768,236	1,686,634

(n) Government Grants

In July 2022, the Opera received notification from the California Governor's Office of Emergency Services (Cal OES) that its Request for Public Assistance for COVID-19 was approved by the Federal Emergency Management Agency (FEMA). In accordance with FEMA Policy #104-22-0002, FEMA will apply 100% federal funding for all eligible COVID-19 costs for work performed and items used from the beginning of the pandemic through July 1, 2022. FEMA will apply the 90% federal cost share to funding for all eligible expenses for work performed and items used on or after July 2, 2022. This includes any supplies purchased but not used or distributed for use until on or after July 2, 2022. The Opera has submitted expenses eligible for federal cost share in the amount of \$2,034,092, however, as of June 30, 2023, FEMA has not obligated the funds, accordingly the Opera has not recognized revenue related to this grant.

(o) 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.

(p) Leases

The Opera is a lessee in two noncancellable warehouse operating leases. In accordance with Accounting Standards Update (ASU) No. 2016-02, *Leases*, at the lease commencement date the Opera recognizes an operating lease right-of-use (ROU) asset and a lease liability in the accompany statement of financial position as other assets and accrued liabilities, respectively. The ROU asset is initially measured at the carrying amount of the lease liability reduced for previously reported deferred rent. The lease liability is initially and subsequently measured at the present value of the unpaid lease

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payments at the lease commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

(q) Reclassifications

Certain reclassifications have been made to the 2022 financial data to conform to the 2023 presentation.

(r) New Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02 (ASC Topic 842), *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 this update, a lessee did not recognize operating leases in the statement of financial position. The statement is effective the fiscal year ending June 30, 2023. The Opera adopted ASC Topic 842 as of July 1, 2022 using the alternative adoption approach. At the date of adoption, the Opera reported a lease liability equal to the present value of lease payments totaling \$2,075,645 and lease asset equal to the lease liability reduced for previously reported deferred rent totaling of \$1,857,857.

(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.

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Notes to Financial Statements

June 30, 2023 and 2022

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.

(4) Investments

(a) *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, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 1,262,112	1,626,164
Intermediate-term bond fund	1,110,050	1,094,743
Large-and mid-cap equities	12,508,880	9,873,601
Small-cap equities	1,561,085	1,844,951
International equity	3,327,901	2,783,409
Emerging market equities	1,364,318	1,276,365
Equity hedge funds	2,297,757	3,013,677
Absolute return funds	2,776,932	2,717,699
Restricted investments with Music Center Foundation	26,209,035	24,230,609
Unrestricted balanced index fund	2,787,556	—
Total Investments	\$ 28,996,591	24,230,609

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.

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Notes to Financial Statements

June 30, 2023 and 2022

(b) *Unrestricted Investments*

The Opera had direct investment holdings of \$2,787,556 in a balanced index fund as of June 30, 2023. In accordance with the requirements of FASB ASC Topic 820, these are classified as Level 1 investments and the valuation is based on observable inputs using quoted market prices in active markets. These are unrestricted board designated endowment funds described in note 11(b). The Opera had no direct investment holdings as of June 30, 2022.

(5) **Functional Expenses**

For the year ended June 30, 2023, functional expenses are as follows:

	Program services					Supporting services			Total
	Opera	Recitals and Off Grand	LA Opera Connects	Young Artist Program	Program subtotal	Management and General	Fundraising	Supporting subtotal	June 30, 2023
Salaries and artist fees	\$ 19,140,591	1,988,963	2,016,835	1,325,897	24,472,286	1,574,177	2,584,652	4,158,829	28,631,115
Retirement contributions	1,516,401	127,924	89,546	46,634	1,780,505	53,194	70,865	124,059	1,904,564
Other benefits and taxes	3,094,622	263,668	347,696	181,814	3,887,800	291,204	301,432	592,636	4,480,436
Materials, supplies, and equipment	411,055	115,939	67,290	26,071	620,355	150,757	87,268	238,025	858,380
Production expenses	2,806,151	246,699	207,255	101,142	3,361,247	3,990	15,740	19,730	3,380,977
Storage costs	224,626	54,282	43,855	20,143	342,906	39,209	168,792	208,001	550,907
Travel and accommodations	643,634	117,672	84,495	94,417	940,218	243,295	139,609	382,904	1,323,122
Services and professional fees	928,289	224,905	235,222	34,277	1,422,693	1,395,374	764,745	2,160,119	3,582,812
Advertising and marketing	726,689	171,834	87,460	—	985,983	139,852	94,163	234,015	1,219,998
Occupancy	2,051,639	51,237	36,330	16,604	2,155,810	703,455	353,405	1,056,860	3,212,670
Depreciation	125,087	62,543	40,207	8,935	236,772	142,957	67,011	209,968	446,740
Insurance	107,018	41,980	17,901	10,228	177,127	73,101	36,770	109,871	286,998
Interest	103,724	50,460	22,427	14,017	190,628	47,657	42,050	89,707	280,335
Total expenses by function	\$ <u>31,879,526</u>	<u>3,518,106</u>	<u>3,296,519</u>	<u>1,880,179</u>	<u>40,574,330</u>	<u>4,858,222</u>	<u>4,726,502</u>	<u>9,584,724</u>	<u>50,159,054</u>

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For the year ended June 30, 2022, functional expenses are as follows:

	Program services					Supporting services			Total
	Opera	Recitals and Off Grand	LA Opera Connects	Young Artist Program	Program subtotal	Management and General	Fundraising	Supporting subtotal	June 30, 2022
Salaries and artist fees	\$ 17,792,025	1,895,534	2,317,515	1,182,550	23,187,624	1,576,717	2,853,313	4,430,030	27,617,654
Retirement contributions	998,006	81,431	46,508	27,285	1,153,230	3,417	2,915	6,332	1,159,562
Other benefits and taxes	2,161,499	153,786	165,728	78,695	2,559,708	6,325	8,305	14,630	2,574,338
Materials, supplies, and equipment	587,958	134,508	162,149	33,873	918,488	1,116,204	571,383	1,687,587	2,606,075
Production expenses	2,018,169	370,200	396,739	129,832	2,914,940	2,254	9,077	11,331	2,926,271
Storage costs	135,192	27,698	43,673	21,956	228,519	131,455	234,916	366,371	594,890
Travel and accommodations	314,279	62,172	36,438	57,173	470,062	13,454	71,784	85,238	555,300
Services and professional fees	1,077,532	322,236	310,944	139,835	1,850,547	929,064	429,643	1,358,707	3,209,254
Advertising and marketing	968,418	225,938	112,938	1,665	1,308,959	1,013,660	222,556	1,236,216	2,545,175
Occupancy	1,960,721	51,661	34,553	21,874	2,068,809	691,284	345,960	1,037,244	3,106,053
Depreciation	146,555	68,180	45,851	10,289	270,875	161,831	72,745	234,576	505,451
Insurance	71,589	32,926	14,040	8,022	126,577	57,335	28,840	86,175	212,752
Interest	67,936	31,246	13,323	7,612	120,117	29,181	25,557	54,738	174,855
Total expenses by function	\$ <u>28,299,879</u>	<u>3,457,516</u>	<u>3,700,399</u>	<u>1,720,661</u>	<u>37,178,455</u>	<u>5,732,181</u>	<u>4,876,994</u>	<u>10,609,175</u>	<u>47,787,630</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 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 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, 2023 and 2022

(6) Contributions Receivable

Contributions receivable, including contributions receivable from the Opera's board members, at June 30, 2023 and 2022 are expected to be received as follows:

	2023	2022
Within one year	\$ 15,696,437	15,858,049
Two to five years	3,212,787	6,956,173
Thereafter	12,587,733	12,647,342
	31,496,957	35,461,564
Less discount to reflect contributions receivable at present value	(3,470,865)	(3,773,880)
Total contributions receivable	\$ 28,026,092	31,687,684
Contributions receivable	\$ 15,471,414	17,137,492
Contributions receivable from related parties	12,554,678	14,550,192
Total contributions receivable	\$ 28,026,092	31,687,684

(7) Property, Plant, and Equipment

Property, plant, and equipment, at cost, consist of the following at June 30, 2023 and 2022:

	2023	2022
Technical equipment	\$ 5,668,063	4,875,057
Leasehold improvements	763,843	763,843
Equipment, furniture, and vehicles	429,243	429,243
Computers	2,254,765	2,254,765
Software	1,779,729	1,697,636
	10,895,643	10,020,544
Less accumulated depreciation	(9,385,174)	(8,938,434)
Total property, plant, and equipment, net	\$ 1,510,469	1,082,110

Depreciation and amortization on property, plant, and equipment totaled \$446,740 and \$505,451 for the years ended June 30, 2023 and 2022, respectively.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2023 and 2022

(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, 2023 and 2022 with an interest rate of 2.6% above the Term SOFR Rate. The Opera had an outstanding balance of \$2,900,000 as of June 30, 2023. There was no outstanding balance as of June 30, 2022. The line of credit expires on November 30, 2023. The Opera plans to renew the credit line with similar terms.

Interest expense of \$143,943 was incurred on the line of credit for the fiscal year ended June 30, 2023. No interest was incurred on the line of credit for the fiscal year ended June 30, 2022.

(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 \$2,750,000. The loan requires monthly interest payments equal to SOFR index plus 3%.

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

Fiscal year ended June 30:	
2024	\$ 1,000,000
2025	1,000,000
2026	<u>750,000</u>
Total	<u>\$ 2,750,000</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 SOFR 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 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 SOFR. The Opera incurred interest of \$131,154 and \$174,854 on the term loan for the fiscal years ended June 30, 2023 and 2022, respectively.

(c) Loan Payable to Related Parties

The Opera sometimes receives interest-free loans from board members. The Opera did not receive any new loans from donors for the fiscal years ended June 30, 2023 or June 30, 2022. There were no loans payable to related parties as of June 30, 2023. Loans payable to related parties as of June 30, 2022 totaled \$33,333.

(9) Commitments

(a) Operating Leases

The Opera is a lessee in two noncancellable operating leases for the costume shop and offsite storage. In accordance with ASC Topic 842, *Leases* at the lease commencement date, the Opera recognizes an

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Notes to Financial Statements

June 30, 2023 and 2022

operating lease right-of-use (ROU) asset and a lease liability in the accompany statement of net position, as discussed in note 2(p).

Lease expense for lease payments are recognized on a straight-line basis over the lease term. Key estimates and judgements included in the determination of the ROU asset and lease liability are the determination of the discount rate it uses to discount the unpaid lease payment to present value, the lease payments, and the lease term. The Opera has elected to use a risk-free discount rate for the lease, determined using a period comparable with that of the lease term.

The first lease commenced on May 1, 2015, with an initial term of ten years ending on April 30, 2025. Lease payments included in the measurement of the lease liability include fixed payments adjusted for annual 3% increase. The second lease commenced on August 15, 2019, with an initial term of six years and one-half month ending on August 31, 2025. Lease payments included fixed payment amounts. Neither lease had the option to extend the lease term. At June 30, 2023, a discount rate of 3.91% was used for both leases. ROU assets reported as other assets and lease liability reported as accrued liabilities of \$1,287,633 and \$1,449,776, respectively, are included in the accompanying financial statements. Lease payments are reported as an expense in the period the expenditure occurs. As of June 30, 2023 and 2022, the Opera reported rent expense (including common area charges of \$125,010 and \$119,354) of \$852,269 and \$846,614, respectively.

Minimum lease payments for both leases are as follows:

Fiscal years:		
2023–2024	\$	803,619
2024–2025		732,691
2025–2026		47,627
Discount		<u>(134,161)</u>
	\$	<u><u>1,449,776</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 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 expensed during the fiscal years ended June 30, 2023 and 2022 totaled \$1,321,218 and \$1,315,754, respectively. Total annual rent under the lease agreement is variable and 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 and none during the fiscal year ended June 30, 2023 and 2022. As payments under this lease are variable, and the present value of future payments is not

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readily measurable, there is no lease asset or lease liability recorded for this lease agreement in the financial statements as of June 30, 2023 or June 30, 2022 in accordance with ASC Topic 842.

(c) *Future Contract Commitments*

In connection with future opera productions, the Opera has entered into various contracts at June 30, 2023. Such commitments are to be paid as follows as of June 30, 2023:

Fiscal years:		
2023–2024	\$	4,893,654
2024–2025		2,220,000
2025–2026		1,310,000
2026–2027		<u>1,400,000</u>
	\$	<u><u>9,823,654</u></u>

(10) **Net Assets**

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes or periods:

	June 30, 2023	June 30, 2022
Contributions receivable restricted for passage of time and purpose	\$ 17,408,769	20,562,016
Contributions receivable restricted for investment in perpetuity	10,617,323	11,125,668
Beneficial interest in perpetual trust	18,212,480	17,868,451
Beneficial interest in remainder trust for investment in perpetuity	19,700,000	19,575,163
Restricted investments	26,209,035	24,230,609
Resources restricted for a specific purpose	<u>2,480,513</u>	<u>1,812,079</u>
	<u>\$ 94,628,120</u>	<u>95,173,986</u>
Net assets restricted in perpetuity	\$ 68,733,122	68,272,601
Net assets restricted for the passage of time and purpose	<u>25,894,998</u>	<u>26,901,385</u>
	<u>\$ 94,628,120</u>	<u>95,173,986</u>

Endowment assets restricted in perpetuity at June 30, 2023 and 2022 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 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

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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.

(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

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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 2023 and 2022, 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.

The Opera's donor restricted endowment net assets for the fiscal years ended June 30, 2023 and 2022 totaled \$26,209,036 and \$24,230,609 respectively. In June 2022, the board of directors authorized the establishment of a board designated endowment and designated \$2,500,000 of net assets without donor restriction to be invested for a long but not necessarily specified period of time. The board designated endowment balance as of June 30, 2023 was \$2,774,605.

Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2023, and 2022 are as follows:

	<u>Unrestricted</u>	<u>Donor restricted</u>	<u>Total</u>
Balance, June 30, 2021	\$ —	29,749,102	29,749,102
Investment return:			
Investment income	—	84,412	84,412
Net unrealized and realized losses	—	(5,078,402)	(5,078,402)
Total investment return	—	(4,993,990)	(4,993,990)
Contributions	2,500,000	630,000	3,130,000
Amounts appropriated for expenditure	—	(1,154,503)	(1,154,503)
Total expenditures and repayments	2,500,000	(524,503)	1,975,497
Balance, June 30, 2022	<u>2,500,000</u>	<u>24,230,609</u>	<u>26,730,609</u>

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	<u>Unrestricted</u>	<u>Donor restricted</u>	<u>Total</u>
Investment return:			
Investment income	\$ —	90,968	90,968
Net unrealized and realized gains	<u>287,556</u>	<u>2,557,138</u>	<u>2,844,694</u>
Total investment return	<u>287,556</u>	<u>2,648,106</u>	<u>2,935,662</u>
Contributions	—	500,000	500,000
Amounts appropriated for expenditure	<u>—</u>	<u>(1,169,680)</u>	<u>(1,169,680)</u>
Total expenditures and repayments	<u>—</u>	<u>(669,680)</u>	<u>(669,680)</u>
Balance, June 30, 2023	\$ <u><u>2,787,556</u></u>	<u><u>26,209,035</u></u>	<u><u>28,996,591</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

Through June 30, 2022, the Opera made an annual discretionary contribution to its 403(b) retirement plan on behalf of employees not represented by a union who had at least 1,000 hours of service in that fiscal year and who had completed at least one full fiscal year of employment. For the fiscal year ending June 30, 2022, the discretionary contribution rate was 2%. For these discretionary contributions, the vested percentage for each 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

As of July 1, 2022, for employees not represented by a union who work at least 20 hours per week, the Opera matches the employee's 403(b) contributions on a weekly basis, dollar for dollar, up to 5%. Employees qualify for the company match the first of the month following the 90th calendar day after they began in an eligible, non-union represented position. These matching contributions are immediately fully vested.

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The plan's costs are accrued and funded annually. The contribution amounts for the fiscal years ended June 30, 2023 and 2022, totaled \$346,915 and \$129,320, respectively.

Certain employees of the Opera are covered by union sponsored, collectively bargained multiemployer pension plans. Contributions to these plans totaled \$1,157,650 and \$1,094,960 for the fiscal years ended June 30, 2023 and 2022, 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:

	2023	2022
Financial assets, at year-end:		
Cash and cash equivalents	\$ 396,418	2,782,116
Accounts receivable	289,873	2,000,410
Current contributions receivable	15,696,437	15,858,049
Endowment distributions for general expenditures	1,242,149	1,169,680
Total financial assets	17,624,877	21,810,255
Less those unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Funds set aside for Simulcast ³	—	(1,675,000)
Resources restricted for a specific purpose	(2,480,513)	(1,812,079)
Financial assets available to meet cash needs for general expenditures within one year	\$ 15,144,364	18,323,176

³ 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.

As part of 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.

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As described in note 11, the Opera maintains a donor restricted endowment of \$26,209,035 and a board designed endowment of \$2,787,556. The board designated endowment may be available for general expenditures with Board approval. None of the donor restricted 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, \$1,242,149 and \$1,169,680 have been designated for general expenditures for the years ended June 30, 2024 and 2023, respectively.

As described in note 8, the Opera also maintains a line of credit with a limit up to \$8,000,000, which can be used during times of liquidity needs. At June 30, 2023, the Opera had \$2,900,000 of the line of credit outstanding.

(15) Subsequent Events

The Opera has evaluated subsequent events and transactions for potential recognition or disclosure through November 29, 2023, the date the accompanying financial statements were available to be issued and identified the following event. On October 24, 2023, the Opera was notified that FEMA had obligated \$484,044 in Public Assistance for eligible COVID-19 costs for work performed and items used from the beginning of the pandemic through July 1, 2022. An additional \$1,550,048 of grant funding is under FEMA review, and obligation of those funds is expected to follow the initial disbursement.