



LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2006 and 2005

Table of Contents

	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Los Angeles Opera Company:

We have audited the accompanying statements of financial position of the Los Angeles Opera Company (the Opera) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Opera's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 15, 2006

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 1,590,418	65,586
Short-term investments (note 3)	768,836	362,000
Accounts receivable	312,470	490,907
Contributions receivable (note 4)	17,789,741	18,130,123
Prepaid production costs	2,797,977	1,809,366
Prepaid expenses, deposits, and other assets	1,102,461	1,249,309
Property, plant, and equipment, net (note 5)	1,356,230	1,999,668
Scenery and costumes (note 2)	3,486,103	2,583,085
Beneficial interest in perpetual trust	6,174,469	5,820,913
Restricted investments (note 3)	12,398,221	11,906,721
	<u>\$ 47,776,926</u>	<u>44,417,678</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 6,625,672	6,702,108
Deferred ticket sales	10,586,925	10,226,578
Loans payable (note 6)	7,509,722	7,636,111
	<u>24,722,319</u>	<u>24,564,797</u>
Commitments and contingencies (note 7)		
Net assets:		
Unrestricted	(1,814,124)	(2,739,160)
Temporarily restricted (note 8)	6,296,041	4,864,407
Permanently restricted (note 8)	18,572,690	17,727,634
Total net assets	<u>23,054,607</u>	<u>19,852,881</u>
	<u>\$ 47,776,926</u>	<u>44,417,678</u>

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2006 and 2005

	2006				2005			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:								
Revenue:								
Ticket sales and fees	\$ 17,961,343	—	—	17,961,343	21,777,745	—	—	21,777,745
Other earned revenue	312,919	—	—	312,919	524,764	—	—	524,764
Investment and endowment income (loss)	1,701,532	—	133,097	1,834,629	509,058	—	(74,153)	434,905
Total revenue	19,975,794	—	133,097	20,108,891	22,811,567	—	(74,153)	22,737,414
Support:								
Foundations, corporations, and individuals	20,639,878	4,304,383	711,959	25,656,220	21,464,977	1,976,723	6,785,267	30,226,967
Government grants	232,440	25,000	—	257,440	99,000	67,000	—	166,000
Special events:								
Revenue	2,328,665	—	—	2,328,665	1,922,533	5,440	—	1,927,973
Less costs of direct benefits to donors	(1,238,998)	—	—	(1,238,998)	(422,465)	—	—	(422,465)
Net revenue from special events	1,089,667	—	—	1,089,667	1,500,068	5,440	—	1,505,508
Total support	21,961,985	4,329,383	711,959	27,003,327	23,064,045	2,049,163	6,785,267	31,898,475
Net assets released from restrictions	2,897,749	(2,897,749)	—	—	5,707,619	(5,707,619)	—	—
Total support and net assets released from restrictions	24,859,734	1,431,634	711,959	27,003,327	28,771,664	(3,658,456)	6,785,267	31,898,475
Total revenue and support and net assets released from restrictions	44,835,528	1,431,634	845,056	47,112,218	51,583,231	(3,658,456)	6,711,114	54,635,889
Expenses:								
Production, performance, and outreach	33,638,632	—	—	33,638,632	38,430,316	—	—	38,430,316
Marketing and public relations	4,457,590	—	—	4,457,590	5,386,620	—	—	5,386,620
Management and general	3,798,177	—	—	3,798,177	3,486,218	—	—	3,486,218
Fund-raising	2,016,093	—	—	2,016,093	2,414,429	—	—	2,414,429
Total expenses	43,910,492	—	—	43,910,492	49,717,583	—	—	49,717,583
Change in net assets	925,036	1,431,634	845,056	3,201,726	1,865,648	(3,658,456)	6,711,114	4,918,306
Net assets at the beginning of the year	(2,739,160)	4,864,407	17,727,634	19,852,881	(4,604,808)	8,522,863	11,016,520	14,934,575
Net assets at the end of the year	\$ (1,814,124)	6,296,041	18,572,690	23,054,607	(2,739,160)	4,864,407	17,727,634	19,852,881

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 3,201,726	4,918,306
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant, and equipment	730,889	815,066
Change in value of beneficial interest in perpetual trust	(133,097)	74,153
Contributions and earnings restricted for permanent investment	(711,959)	(6,785,267)
Changes in operating assets and liabilities:		
Accounts receivable	178,437	(208,053)
Contributions receivable	340,382	(1,711,101)
Prepaid production costs	(988,611)	447,312
Prepaid expenses and deposits	146,848	124,870
Scenery and costumes	(903,018)	(1,673,329)
Accounts payable and accrued liabilities	(76,436)	976,600
Deferred ticket sales	360,347	(1,997,463)
Net cash provided by (used in) operating activities	2,145,508	(5,018,906)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(87,451)	(295,790)
Purchases of investments	(898,336)	(6,588,775)
Net cash used in investing activities	(985,787)	(6,884,565)
Cash flows from financing activities:		
Contributions and earnings restricted for permanent investment	491,500	6,560,453
Proceeds from loan payable	10,900,000	10,815,000
Repayment of loan payable	(11,026,389)	(5,421,945)
Net cash provided by financing activities	365,111	11,953,508
Net increase in cash and cash equivalents	1,524,832	50,037
Cash and cash equivalents at the beginning of the year	65,586	15,549
Cash and cash equivalents at the end of the year	\$ 1,590,418	65,586
Supplemental disclosure of cash flow information:		
Interest paid during the year	\$ 509,615	228,056

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(1) Organization

The Los Angeles Opera Company (the Opera) is a nonprofit, tax-exempt entity organized to produce operas in order to expand and enrich the cultural interests of the Los Angeles community, and 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:

- **Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Opera.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Opera and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions that are received and expended in the same reporting period are reported as unrestricted in the accompanying financial statements.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity, the earnings from which are available for the Opera's use unless otherwise stipulated by the donor.

(b) *Scenery and Costumes*

In 2004, the Opera initiated a multiyear program to construct a core repertoire of productions. The scenery, props, and costumes designed for these productions with planned revivals are capitalized and amortized 50% in the year originally performed. The remaining balance will be amortized on a straight-line basis over five years or until the year of revival. The Opera intends to rent out such scenery, props, and costumes in the interim.

Scenery, props, and costumes designed for a specific production, for which there is no planned revival, are expensed in the fiscal year that the production is first performed.

(c) *Fixed Assets*

Fixed assets 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 and furniture, seven years for technical equipment, and the lesser of seven years or the lease term for leasehold improvements.

(d) *Ticket Sales Revenue*

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

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(e) Contributed Goods and Services

The value of significant contributed goods is reflected as contributions in the financial statements at the fair value of such goods at the date of donation. For the years ended June 30, 2006 and 2005, the Opera did not receive significant contributed goods.

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 years ended June 30, 2006 and 2005, the Opera did not receive significant contributed services.

(f) Contributions Receivable

Contributions receivable are recorded at the present value of expected future cash flows using discount rates ranging from 3% to 5% for the years ended June 30, 2006 and 2005, respectively. Contributions receivable are recorded as unrestricted contributions revenue if there are circumstances surrounding the promise that indicate that the donor intended it for current use.

(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 is not subject to federal or state income taxes. However, the Opera is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statement taken as a whole.

(i) Concentration of Risks

Cash and cash equivalents and short-term investments consist of cash on deposit and money market accounts at one financial institution. The Opera is exposed to credit loss for the amount of cash in excess of the federally insured limit of \$100,000 in the event of nonperformance by the counterparty. At June 30, 2006 and 2005, the Opera had cash in banks in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$145,783 and \$392,000, respectively.

(j) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. Investments in limited partnerships are recorded at estimated fair value.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

During the years ended June 30, 2006 and 2005, the Opera transferred investments totaling \$491,500 and \$6,560,453, respectively, to the Music Center Foundation, a not-for-profit organization that raises funds on behalf of the Opera and other operating companies of the Performing Arts Center of Los Angeles, for the purpose of maximizing investment earnings. Such investments are maintained in a unitized pool of investments and are included in restricted investments.

(k) *Restricted Investments*

Restricted investments at June 30, 2006 and 2005 consist of funds designated by donors for investment in perpetuity, the earnings from which are available for the Opera's use, unless otherwise stipulated by the donor.

(l) *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.

(m) *Expense Allocation*

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by the Opera's management.

(n) *Beneficial Interest in Perpetual Trusts*

The Opera is the beneficiary of several perpetual trusts held by the Music Center Foundation. The Opera has the right to receive the income earned on the trust assets in perpetuity, but will never receive the assets held in the trust. The beneficial interest is recorded at the fair value of the underlying assets, which is remeasured annually.

(o) *Reclassifications*

Certain reclassifications have been made to the 2005 financial data to conform with the 2006 presentation.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(3) Investments

Investments of the Opera and investments held by the Music Center Foundation pool were allocated as follows at June 30:

	<u>2006</u>	<u>2005</u>
Equity securities	\$ 6,809,873	7,683,462
Money market accounts	741,575	600,512
Fixed income	2,381,623	2,288,030
Limited partnerships	<u>3,233,986</u>	<u>1,696,717</u>
Total	<u>\$ 13,167,057</u>	<u>12,268,721</u>
	<u>2006</u>	<u>2005</u>
Short-term investments	\$ 768,836	362,000
Restricted investments	<u>12,398,221</u>	<u>11,906,721</u>
Total	<u>\$ 13,167,057</u>	<u>12,268,721</u>

(4) Contributions Receivable

Contributions receivable at June 30, 2006 and 2005 are expected to be received as follows:

	<u>2006</u>	<u>2005</u>
Within one year	\$ 8,929,005	11,370,485
Two to five years	9,019,905	6,953,113
Thereafter	<u>610,279</u>	<u>276,355</u>
	18,559,189	18,599,953
Less discount to reflect contributions receivable at present value	<u>(769,448)</u>	<u>(469,830)</u>
Total	<u>\$ 17,789,741</u>	<u>18,130,123</u>

In response to the need for increased unrestricted operating funds, in recent years, the Opera has initiated significant fund-raising efforts. These initiatives include the 20th Anniversary Angels, a prominent level of opera membership. Management of the Opera believes that these efforts will help to reduce reliance on amounts received for future opera performances and to increase operating capital. Included in contributions receivable are pledges from Opera board members totaling \$9,168,596 and \$11,461,381 at June 30, 2006 and 2005, respectively.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(5) Property, Plant, and Equipment

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

	2006	2005
Technical equipment	\$ 2,903,410	2,879,162
Leasehold improvements	773,651	762,843
Equipment, furniture, and vehicles	376,477	370,152
Computers	1,337,199	1,291,129
Software	951,101	951,101
	6,341,838	6,254,387
Less accumulated depreciation	(4,985,608)	(4,254,719)
	\$ 1,356,230	1,999,668

Depreciation expense totaled \$730,889 and \$815,066 at June 30, 2006 and 2005, respectively.

(6) Loan Payable

The Opera has a line of credit agreement that carries a borrowing limit of \$7,000,000 at June 30, 2006 and 2005 at interest rates ranging from 7.4% to 8.5%. On July 12, 2006, the terms of the agreement were changed to increase the line of credit to \$9,000,000, increase the borrowing limit to \$11,000,000 between September 1, 2006 and February 28, 2007 and September 1, 2007 through November 30, 2007, extend the expiration date to November 30, 2007, and modify certain advance payment requirements. Amounts outstanding under this agreement totaled \$6,500,000 and \$7,000,000 at June 30, 2006 and 2005, respectively.

On July 29, 2003, the Opera entered into a \$350,000 term loan agreement, which is payable in monthly installments maturing on July 30, 2006 and accrues interest based on the six-month LIBOR rate. The amounts outstanding on the term loan totaled \$9,722 and \$136,111 at June 30, 2006 and 2005, respectively.

On August 27, 2004, the Opera entered into a \$2,000,000 term loan agreement, which is payable in monthly installments maturing on August 1, 2005 and accrues interest based on the three-month LIBOR rate. No amounts were outstanding on the term loan at June 30, 2006.

The line of credit and two term loans are cross-collateralized by the Opera's assets.

Interest incurred on these borrowings totaled \$509,615 and \$248,434 for the years ended June 30, 2006 and 2005, respectively.

During the year ended June 30, 2006, the Opera also received an advance from a board member totaling \$1,000,000, which was subsequently repaid in September 2006.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(7) Commitments

The Opera has noncancelable operating leases for its costume shop and scene shop operations. Minimum lease payments due under these leases as of June 30, 2006 are as follows:

2007	\$	346,085
2008		357,903
2009		366,850
2010		<u>379,377</u>
	\$	<u><u>1,450,215</u></u>

The Opera also leases performance space and office facilities, currently on a month-to-month basis from the County of Los Angeles (the County). The Opera and the County are currently finalizing a long term lease arrangement that is expected to have terms similar to the current arrangements. Total rent paid during the years ended June 30, 2006 and 2005 totaled \$1,432,770 and \$1,491,481 respectively.

In connection with future opera productions, the Opera has entered into various artist contracts which totaled \$5,695,118 and \$7,012,258 at June 30, 2006 and 2005, respectively. Such commitments are to be paid as follows as of June 30, 2006:

Season:		
2006 – 2007	\$	4,458,674
2007 – 2008		<u>1,236,444</u>
	\$	<u><u>5,695,118</u></u>

(8) Net Assets

Temporarily restricted net assets at June 30, 2006 and 2005 are available for the following purposes or periods:

		<u>2006</u>	<u>2005</u>
Passage of specified time	\$	4,153,501	4,219,307
Production underwriting		419,858	645,100
Young Artist Program		<u>1,722,682</u>	<u>—</u>
	\$	<u><u>6,296,041</u></u>	<u><u>4,864,407</u></u>

Permanently restricted net assets at June 30, 2006 and 2005 are restricted for investment in perpetuity. Investment income generated from these funds may be expended to support the general operations of the Opera.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2006 and 2005

(9) 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, such matters will not have a material effect on the financial position or changes in net assets of the Opera.

(10) 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 contributes a fixed 2% of eligible employees' compensation, with an additional 1% awarded at the Opera's discretion. For the fiscal years ended June 30, 2006 and 2005, the contribution rate was 2%. The vested percentage for each year of service is as follows:

<u>Years 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, 2006 and 2005 were \$86,043 and \$72,995, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension and welfare plans. Contributions to these plans totaled \$1,906,985 and \$1,924,767 for the years ended June 30, 2006 and 2005, respectively. Payments to these plans are made and recorded as incurred.