



LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2005 and 2004

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KPMG LLP
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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, 2005 and 2004, 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. Investments of the Opera totaling \$17,727,634 or 40% of total assets at June 30, 2005, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to these amounts, is based solely on the report of the other auditors.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 23, 2005

LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 65,586	15,549
Short-term investments (note 3)	362,000	333,678
Accounts receivable	490,907	282,854
Contributions receivable (note 4)	18,130,123	16,419,022
Prepaid production costs	1,809,366	2,256,678
Prepaid expenses, deposits, and other assets	1,249,309	1,374,179
Property, plant, and equipment, net (note 5)	1,999,668	2,518,944
Scenery and costumes (note 2)	2,583,085	909,756
Beneficial interest in perpetual trust	5,820,913	5,670,252
Restricted investments (note 3)	11,906,721	5,346,268
	<u>\$ 44,417,678</u>	<u>35,127,180</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 6,702,108	5,725,508
Deferred ticket sales	10,226,578	12,224,041
Loan payable (note 6)	7,636,111	2,243,056
	<u>24,564,797</u>	<u>20,192,605</u>
Commitments and contingencies (note 7)		
Net assets:		
Unrestricted	(2,739,160)	(4,604,808)
Temporarily restricted (note 8)	4,864,407	8,522,863
Permanently restricted (note 8)	17,727,634	11,016,520
Total net assets	<u>19,852,881</u>	<u>14,934,575</u>
	<u>\$ 44,417,678</u>	<u>35,127,180</u>

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:								
Revenue:								
Ticket sales and fees	\$ 21,777,745	—	—	21,777,745	15,844,760	—	—	15,844,760
Other earned revenue	524,764	—	—	524,764	376,596	—	—	376,596
Investment and endowment income (loss)	509,058	—	(74,153)	434,905	411,961	—	178,868	590,829
Total revenue	<u>22,811,567</u>	<u>—</u>	<u>(74,153)</u>	<u>22,737,414</u>	<u>16,633,317</u>	<u>—</u>	<u>178,868</u>	<u>16,812,185</u>
Support:								
Foundations, corporations, and individuals	21,464,977	1,976,723	6,785,267	30,226,967	18,713,813	6,252,317	833,035	25,799,165
Government grants	99,000	67,000	—	166,000	250,600	82,000	—	332,600
Special events:								
Revenue	1,922,533	5,440	—	1,927,973	1,402,772	219,430	—	1,622,202
Less costs of direct benefits to donors	(422,465)	—	—	(422,465)	(592,800)	—	—	(592,800)
Net revenue from special events	<u>1,500,068</u>	<u>5,440</u>	<u>—</u>	<u>1,505,508</u>	<u>809,972</u>	<u>219,430</u>	<u>—</u>	<u>1,029,402</u>
Total support	<u>23,064,045</u>	<u>2,049,163</u>	<u>6,785,267</u>	<u>31,898,475</u>	<u>19,774,385</u>	<u>6,553,747</u>	<u>833,035</u>	<u>27,161,167</u>
Net assets released from restrictions	<u>5,707,619</u>	<u>(5,707,619)</u>	<u>—</u>	<u>—</u>	<u>6,678,841</u>	<u>(6,678,841)</u>	<u>—</u>	<u>—</u>
Total support and net assets released from restrictions	<u>28,771,664</u>	<u>(3,658,456)</u>	<u>6,785,267</u>	<u>31,898,475</u>	<u>26,453,226</u>	<u>(125,094)</u>	<u>833,035</u>	<u>27,161,167</u>
Total revenue and support and net assets released from restrictions	<u>51,583,231</u>	<u>(3,658,456)</u>	<u>6,711,114</u>	<u>54,635,889</u>	<u>43,086,543</u>	<u>(125,094)</u>	<u>1,011,903</u>	<u>43,973,352</u>
Expenses:								
Production, performance, and outreach	38,430,316	—	—	38,430,316	32,741,695	—	—	32,741,695
Marketing and public relations	5,386,620	—	—	5,386,620	5,481,924	—	—	5,481,924
Management and general	3,486,218	—	—	3,486,218	2,832,035	—	—	2,832,035
Fund-raising	2,414,429	—	—	2,414,429	1,994,326	—	—	1,994,326
Total expenses	<u>49,717,583</u>	<u>—</u>	<u>—</u>	<u>49,717,583</u>	<u>43,049,980</u>	<u>—</u>	<u>—</u>	<u>43,049,980</u>
Change in net assets	1,865,648	(3,658,456)	6,711,114	4,918,306	36,563	(125,094)	1,011,903	923,372
Net assets at the beginning of the year	(4,604,808)	8,522,863	11,016,520	14,934,575	(4,641,371)	8,647,957	10,004,617	14,011,203
Net assets at the end of the year	<u>\$ (2,739,160)</u>	<u>4,864,407</u>	<u>17,727,634</u>	<u>19,852,881</u>	<u>(4,604,808)</u>	<u>8,522,863</u>	<u>11,016,520</u>	<u>14,934,575</u>

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 4,918,306	923,372
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant, and equipment	815,066	511,095
Change in value of beneficial interest in perpetual trust	74,153	(178,868)
Contributions and earnings restricted for permanent investment	(6,785,267)	(833,035)
Changes in operating assets and liabilities:		
Accounts receivable	(208,053)	(119,935)
Contributions receivable	(1,711,101)	(3,826,608)
Prepaid production costs	447,312	(606,986)
Prepaid expenses and deposits	124,870	3,890
Scenery and costumes	(1,673,329)	(909,755)
Accounts payable and accrued liabilities	976,600	866,110
Deferred ticket sales	(1,997,463)	3,124,403
Net cash used in operating activities	(5,018,906)	(1,046,317)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(295,790)	(1,530,993)
Purchases or sales of investments	(6,588,775)	115,995
Net cash used in investing activities	(6,884,565)	(1,414,998)
Cash flows from financing activities:		
Contributions and earnings restricted for permanent investment	6,560,453	102,500
Proceeds from loan payable	10,815,000	8,300,000
Repayment of loan payable	(5,421,945)	(6,556,944)
Net cash provided by financing activities	11,953,508	1,845,556
Net increase (decrease) in cash and cash equivalents	50,037	(615,759)
Cash and cash equivalents at the beginning of the year	15,549	631,308
Cash and cash equivalents at the end of the year	\$ 65,586	15,549
Supplemental disclosure of cash flow information:		
Interest paid during the year	\$ 228,056	148,030

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2005 and 2004

(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.

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Notes to Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004, 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, 2005 and 2004, 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 4% for the years ended June 30, 2005 and 2004, 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, 2005 and 2004, the Opera had cash in banks in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$392,000 and \$408,000, 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.

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Notes to Financial Statements

June 30, 2005 and 2004

During the years ended June 30, 2005 and 2004, the Opera transferred investments totaling \$6,560,453 and \$4,873,678, 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.

(k) Restricted Investments

Restricted investments at June 30, 2005 and 2004 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 accounting principles generally accepted in the United States of America 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 2004 financial data to conform with the 2005 presentation.

(3) Investments

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

	2005	2004
Equity securities	\$ 7,683,462	3,217,968
Money market accounts	600,512	469,723
Fixed income	2,288,030	993,673
Limited partnerships	1,696,717	998,582
Total	\$ 12,268,721	5,679,946

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2005 and 2004

	2005	2004
Short-term investments	\$ 362,000	333,678
Restricted Investments	11,906,721	5,346,268
Total	\$ 12,268,721	5,679,946

(4) Contributions Receivable

Contributions receivable at June 30, 2005 and 2004 are expected to be received as follows:

	2005	2004
Within one year	\$ 11,370,485	11,506,574
Two to five years	6,953,113	6,238,240
Thereafter	276,355	—
	18,599,953	17,744,814
Less reserve for possible defaults in contributions receivable	—	(1,000,000)
Less discount to reflect contributions receivable at present value	(469,830)	(325,792)
Total	\$ 18,130,123	16,419,022

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 \$11,461,381 and \$10,211,036 at June 30, 2005 and 2004, respectively.

During the year ended June 30, 2005, the Opera wrote off a \$1,000,000 pledge receivable against the reserve for possible defaults.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2005 and 2004

(5) Property, Plant, and Equipment

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

	<u>2005</u>	<u>2004</u>
Technical equipment	\$ 2,879,162	2,795,653
Leasehold improvements	762,843	643,158
Equipment, furniture, and vehicles	370,152	349,404
Computers	1,291,129	1,219,282
Software	951,101	951,101
	<u>6,254,387</u>	<u>5,958,598</u>
Less accumulated depreciation	<u>(4,254,719)</u>	<u>(3,439,654)</u>
	<u>\$ 1,999,668</u>	<u>2,518,944</u>

Depreciation expense totaled \$815,066 and \$511,095 at June 30, 2005 and 2004, respectively.

(6) Loan Payable

On August 12, 2002, the Opera entered into a \$5,000,000 line of credit agreement that carries interest at variable rates. The agreement was amended on October 28, 2003 to temporarily increase the borrowing limit to \$7,000,000 until February 28, 2004 and extend the maturity date by one year to November 30, 2004. On August 9, 2004, the agreement was amended to increase the borrowing limit to \$7,000,000 between September 1, 2004 and February 1, 2005, to extend the maturity date to November 30, 2005, and modify certain advance payment requirements. On June 21, 2005, the terms of the agreement were changed to increase the line of credit to \$7,000,000, increase the borrowing limit to \$9,000,000 between September 1, 2005 and February 28, 2006 and September 1, 2006 through November 30, 2006, extend the expiration date to November 30, 2006, and modify certain advance payment requirements. Amounts outstanding under this agreement totaled \$7,000,000 and \$2,000,000 at June 30, 2005 and 2004, 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 \$136,111 and \$243,056 at June 30, 2005 and 2004, 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. The amount outstanding on the term loan at June 30, 2005 totaled \$500,000.

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2005 and 2004

The future principal payments for the two term loans are as follows:

Year ending June 30:		
2006	\$	626,389
2007		<u>9,722</u>
	\$	<u><u>636,111</u></u>

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

Interest incurred on these borrowings totaled \$248,434 and \$148,030 for the years ended June 30, 2005 and 2004, respectively.

(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, 2005 are as follows:

2006	\$	452,208
2007		346,085
2008		357,903
2009		366,850
2010		379,377
Thereafter		<u>252,918</u>
	\$	<u><u>2,155,341</u></u>

The Opera also leases performance space and office facilities, currently on a month-to-month basis. Total rent paid during the years ended June 30, 2005 and 2004 totaled \$1,491,481 and \$1,450,706, respectively.

In connection with future opera productions, the Opera has entered into various artist contracts which totaled \$7,012,258 and \$11,171,185 at June 30, 2005 and 2004, respectively. Such commitments are to be paid as follows as of June 30, 2005:

Season:		
2005 – 2006	\$	4,909,758
2006 – 2007		<u>2,102,500</u>
	\$	<u><u>7,012,258</u></u>

LOS ANGELES OPERA COMPANY

Notes to Financial Statements

June 30, 2005 and 2004

(8) Net Assets

Temporarily restricted net assets at June 30, 2005 and 2004 are available for the following purposes or periods:

	<u>2005</u>	<u>2004</u>
Passage of specified time	\$ 4,219,307	7,050,327
Production underwriting	645,100	1,472,536
	<u>\$ 4,864,407</u>	<u>8,522,863</u>

Permanently restricted net assets at June 30, 2005 and 2004 are restricted for investment in perpetuity. Investment income generated from these funds may be expended to support the general operations of the Opera.

(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, 2005 and 2004, 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, 2005 and 2004 were \$72,995 and \$69,545, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension and welfare plans. Contributions to these plans totaled \$1,924,767 and \$1,707,014 for the years ended June 30, 2005 and 2004, respectively. Payments to these plans are made and recorded as incurred.