



**FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

BOSTON LYRIC OPERA COMPANY

Contents
June 30, 2019 and 2018

	<u>Pages</u>
Independent Auditor’s Report	1 - 1A
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 18

Independent Auditor's Report

To the Board of Directors of
Boston Lyric Opera Company:

Report on the Financial Statements

We have audited the accompanying financial statements of Boston Lyric Opera Company (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, the related statement of functional expenses for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Lyric Opera Company as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 2, during fiscal year 2019, Boston Lyric Opera Company adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which aims to provide, among other items, analysis of expense by both natural classification and functional classification, clarity over the classification of net assets, methods used to allocate costs to programmatic and support functions, as well as information concerning liquidity and availability of resources. Our opinion is not modified with respect to this matter.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
September 18, 2019

BOSTON LYRIC OPERA COMPANY

 Statements of Financial Position
 June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 146,583	\$ 239,063	\$ 385,646	\$ 333,068	\$ 40,933	\$ 374,001
Accounts receivable	15,672	-	15,672	-	-	-
Current portion of pledges receivable, net of allowance for doubtful accounts of \$25,000	2,464,078	1,166,500	3,630,578	1,245,911	1,686,500	2,932,411
Prepaid expenses and other	96,280	-	96,280	231,922	-	231,922
Total current assets	<u>2,722,613</u>	<u>1,405,563</u>	<u>4,128,176</u>	<u>1,810,901</u>	<u>1,727,433</u>	<u>3,538,334</u>
Investments	59,695	15,724,621	15,784,316	55,435	15,229,117	15,284,552
Pledges Receivable, net of current portion and discount	-	2,298,089	2,298,089	-	1,677,866	1,677,866
Deposits	24,000	-	24,000	24,000	-	24,000
Property and Equipment, net	<u>91,970</u>	<u>-</u>	<u>91,970</u>	<u>92,197</u>	<u>-</u>	<u>92,197</u>
Total assets	<u>\$ 2,898,278</u>	<u>\$ 19,428,273</u>	<u>\$ 22,326,551</u>	<u>\$ 1,982,533</u>	<u>\$ 18,634,416</u>	<u>\$ 20,616,949</u>
Liabilities and Net Assets						
Current Liabilities:						
Line of credit	\$ 1,100,000	\$ -	\$ 1,100,000	\$ 250,000	\$ -	\$ 250,000
Accounts payable and accrued expenses	403,731	-	403,731	311,321	-	311,321
Advance ticket subscriptions and other deferred revenue	490,563	-	490,563	593,645	-	593,645
Total current liabilities	<u>1,994,294</u>	<u>-</u>	<u>1,994,294</u>	<u>1,154,966</u>	<u>-</u>	<u>1,154,966</u>
Net Assets:						
Without donor restrictions:						
Operating	812,014	-	812,014	735,370	-	735,370
Property and equipment	<u>91,970</u>	<u>-</u>	<u>91,970</u>	<u>92,197</u>	<u>-</u>	<u>92,197</u>
Total without donor restrictions	903,984	-	903,984	827,567	-	827,567
With donor restrictions	-	19,428,273	19,428,273	-	18,634,416	18,634,416
Total net assets	<u>903,984</u>	<u>19,428,273</u>	<u>20,332,257</u>	<u>827,567</u>	<u>18,634,416</u>	<u>19,461,983</u>
Total liabilities and net assets	<u>\$ 2,898,278</u>	<u>\$ 19,428,273</u>	<u>\$ 22,326,551</u>	<u>\$ 1,982,533</u>	<u>\$ 18,634,416</u>	<u>\$ 20,616,949</u>

The accompanying notes are an integral part of these statements.

BOSTON LYRIC OPERA COMPANY

 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenue:						
Operating support:						
Contributions	\$ 4,464,341	\$ 1,014,723	\$ 5,479,064	\$ 4,318,888	\$ 2,249,912	\$ 6,568,800
Grants	404,062	38,000	442,062	647,758	466,000	1,113,758
Special events	342,121	25,000	367,121	447,830	75,000	522,830
In-kind contributions	88,577	-	88,577	87,838	-	87,838
Net assets released from restrictions:						
Time - other	1,609,000	(1,609,000)	-	729,500	(729,500)	-
Time - special events	40,000	(40,000)	-	70,250	(70,250)	-
Purpose	51,370	(51,370)	-	15,652	(15,652)	-
Total operating support	<u>6,999,471</u>	<u>(622,647)</u>	<u>6,376,824</u>	<u>6,317,716</u>	<u>1,975,510</u>	<u>8,293,226</u>
Operating revenue:						
Ticket sales	1,189,351	-	1,189,351	1,224,103	-	1,224,103
Investment return designated for current operations	675,000	-	675,000	600,000	-	600,000
Rental and other	48,210	-	48,210	109,729	-	109,729
Total operating revenue	<u>1,912,561</u>	<u>-</u>	<u>1,912,561</u>	<u>1,933,832</u>	<u>-</u>	<u>1,933,832</u>
Total operating support and revenue	<u>8,912,032</u>	<u>(622,647)</u>	<u>8,289,385</u>	<u>8,251,548</u>	<u>1,975,510</u>	<u>10,227,058</u>
Operating Expenses:						
Program	6,956,343	-	6,956,343	6,467,521	-	6,467,521
Management and general	821,474	-	821,474	701,742	-	701,742
Fundraising	1,060,906	-	1,060,906	1,053,406	-	1,053,406
Total operating expenses	<u>8,838,723</u>	<u>-</u>	<u>8,838,723</u>	<u>8,222,669</u>	<u>-</u>	<u>8,222,669</u>
Changes in net assets from operations	<u>73,309</u>	<u>(622,647)</u>	<u>(549,338)</u>	<u>28,879</u>	<u>1,975,510</u>	<u>2,004,389</u>
Non-Operating Revenue (Expenses):						
Investment return, net	3,108	1,060,504	1,063,612	2,517	727,491	730,008
Endowment contributions and grants	-	1,031,000	1,031,000	-	75,558	75,558
Investment return designated for current operations	-	(675,000)	(675,000)	-	(600,000)	(600,000)
Total non-operating revenue (expenses)	<u>3,108</u>	<u>1,416,504</u>	<u>1,419,612</u>	<u>2,517</u>	<u>203,049</u>	<u>205,566</u>
Changes in net assets	<u>76,417</u>	<u>793,857</u>	<u>870,274</u>	<u>31,396</u>	<u>2,178,559</u>	<u>2,209,955</u>
Net Assets:						
Beginning of year	<u>827,567</u>	<u>18,634,416</u>	<u>19,461,983</u>	<u>796,171</u>	<u>16,455,857</u>	<u>17,252,028</u>
End of year	<u>\$ 903,984</u>	<u>\$ 19,428,273</u>	<u>\$ 20,332,257</u>	<u>\$ 827,567</u>	<u>\$ 18,634,416</u>	<u>\$ 19,461,983</u>

The accompanying notes are an integral part of these statements.

BOSTON LYRIC OPERA COMPANYStatements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 870,274	\$ 2,209,955
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	41,907	58,290
Net gains on investments	(687,310)	(301,679)
Change in discount of pledges receivable	58,777	30,947
Bad debt	576	20,878
Endowment contributions and grants	(1,031,000)	(75,558)
Changes in operating assets and liabilities:		
Accounts receivable	(15,672)	30,000
Pledges receivable	(456,743)	(1,861,806)
Prepaid expenses and other	135,642	(15,914)
Accounts payable and accrued expenses	92,410	59,545
Advance ticket subscriptions and other deferred revenue	(103,082)	(26,498)
Net cash provided by (used in) operating activities	<u>(1,094,221)</u>	<u>128,160</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(41,680)	(48,839)
Purchase of investments	(2,389,868)	(3,388,852)
Proceeds from sale of investments	<u>2,577,414</u>	<u>2,375,748</u>
Net cash provided by (used in) investing activities	<u>145,866</u>	<u>(1,061,943)</u>
Cash Flows from Financing Activities:		
Draws (payments) on line of credit	850,000	(400,000)
Endowment cash contributions and pledge payments	<u>110,000</u>	<u>1,185,000</u>
Net cash provided by financing activities	<u>960,000</u>	<u>785,000</u>
Net Change in Cash and Cash Equivalents	11,645	(148,783)
Cash and Cash Equivalents:		
Beginning of year	<u>374,001</u>	<u>522,784</u>
End of year	<u>\$ 385,646</u>	<u>\$ 374,001</u>
Supplemental Disclosures of Cash Flow Transactions:		
Unrealized gains on investments	<u>\$ 825,562</u>	<u>\$ 145,371</u>
Cash paid for interest	<u>\$ 40,363</u>	<u>\$ 43,008</u>

BOSTON LYRIC OPERA COMPANYStatement of Functional Expenses
For the Year Ended June 30, 2019

	<u>Program</u>	<u>Support Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	
Operating Expenses:				
Direct performance costs	\$ 3,060,715	\$ -	\$ -	\$ 3,060,715
Salaries, taxes and benefits	1,188,605	592,605	593,218	2,374,428
Principal artist fees and benefits	1,428,324	-	-	1,428,324
Events	33,297	-	275,335	308,632
Advertising and public relations	283,120	-	-	283,120
Occupancy	183,491	50,245	43,067	276,803
Consultants	161,493	75,415	12,791	249,699
Information technology	142,242	20,135	20,369	182,746
Travel and entertainment	82,519	9,624	37,971	130,114
Professional fees	86,832	27,500	-	114,332
Printing and postage	57,709	2,178	22,653	82,540
Bank fees and interest expense	61,213	10,868	9,382	81,463
Artistic research and planning	53,686	-	-	53,686
Insurance	40,742	6,889	5,905	53,536
Miscellaneous	32,630	5,818	14,115	52,563
Office equipment and supplies	23,692	7,839	17,066	48,597
Depreciation	25,549	8,808	7,550	41,907
Dues and subscriptions	10,484	3,550	1,484	15,518
	<u>\$ 6,956,343</u>	<u>\$ 821,474</u>	<u>\$ 1,060,906</u>	<u>\$ 8,838,723</u>

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

1. OPERATIONS AND NONPROFIT STATUS

Boston Lyric Opera Company (BLO) is a Massachusetts nonprofit institution incorporated in 1976. Entering its 43rd season, BLO is New England's largest and longest established opera company. Celebrated for its artistic excellence and diverse repertoire, BLO's mission is to build curiosity, enthusiasm and support for opera by creating musically and theatrically compelling productions and events, and to provide educational resources for the Boston community and beyond.

BLO's long-term success is rooted in its commitment to offering the highest caliber productions of both classic and contemporary operas; providing an internationally renowned platform on which emerging artists can develop; engaging new and diverse audiences through innovations in technology, outreach and strategic communications; and by offering collaborative education and community events on its own and in partnership with other Boston-based cultural institutions. BLO achieves its mission by ensuring the availability and accessibility of one of the world's greatest and oldest art forms for generations to come.

Funded in part by a grant from the Massachusetts Cultural Council and the National Endowment for the Arts, BLO reaches annual audiences of more than 20,000 people through the staging of four productions and community outreach programs each season. In fiscal year 2019, BLO staged its four productions at the Emerson Cutler Majestic and Paramount theaters, the Arts for Humanity Epicenter, and the Harvard Lavietes Pavilion.

BLO is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). BLO is also exempt from state income taxes. Donors may deduct contributions made to BLO within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

BLO prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Standards

In fiscal year 2019, BLO adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. BLO has adjusted the presentation of these financial statements accordingly. This ASU has been applied retrospectively to all periods presented. The adoption of this ASU did not impact BLO's net asset classes, results of operations, or cash flows for the year ended June 30, 2018. This ASU provides an option to omit the following information for the fiscal year 2018 financial statements:

- Analysis of expense by both natural classification and functional classification.
- Disclosures about liquidity and availability of resources.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Purchased property and equipment over \$1,000 and with a useful life of more than one year are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Sets and properties are expensed as production costs in the year of the related performance.

Depreciation of property and equipment (see Note 5) is computed using the straight-line method over estimated useful lives of three to seven years. Depreciation expense for the years ended June 30, 2019 and 2018, was \$41,907 and \$58,290, respectively.

Revenue Recognition

Ticket sales revenue is recognized as productions are performed. Ticket sales and production set rentals received in advance of performances are recorded as advance ticket subscriptions and other deferred revenue in the accompanying statements of financial position. Special events income is recognized as the events occur.

BLO records revenue from grants and contributions when received or unconditionally committed. BLO reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. All other revenue is recognized when earned.

For investment return (see Note 6), interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period.

Allowance for Doubtful Accounts and Pledges

An allowance for doubtful accounts and pledges (see Note 8) is recorded based on BLO's policy, which takes into account factors such as management's review of accounts and pledges receivable and their estimate of amounts that may become uncollectible. Amounts are written off as they are determined to be uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts, excluding those included in the investment portfolio (see Note 6).

Fair Value Measurements

BLO follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that BLO would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

BLO uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of BLO. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable, and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are recorded in the financial statements at fair value. BLO values its investments in certain fixed income investments (certain government, agency, and corporate bonds) using significant other observable, or Level 2 inputs, as explained further in Note 6. BLO values all other investments, which are publicly traded, using observable, or Level 1 inputs - the quoted price in an active market.

A summary of inputs used in valuing BLO's investments as of June 30, 2019 and 2018, is included in Note 6.

Charitable Remainder Trust

A summary of inputs used in valuing BLO's Charitable Remainder Trust as of June 30, 2019 and 2018, is included in Note 8.

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and these are considered Level 1 in the fair value hierarchy.

Investment Return Allocations

Massachusetts state law allows BLO to appropriate as much of the appreciation of its endowment as is prudent considering BLO's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations (Continued)

The Board of Directors has voted to allow for the use of a portion of total investment return for operations each year. BLO may annually distribute from its investment portfolios an amount in accordance with its current spending policy. Transfers to operating net assets, in accordance with this policy, are reflected in the accompanying statements of activities and changes in net assets as investment return designated for current operations (see Note 4).

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenue and operating expenses in the accompanying statements of activities and changes in net assets. Non-operating revenue (expenses) includes endowment, investment, and capital activity.

Donated Goods and Services

Other organizations contribute goods and services to BLO in support of various aspects of its programs. These goods and services are reflected as in-kind contributions and as expenses in the accompanying financial statements based upon the estimated value assigned to them by the donating organizations or by management.

The value of these goods and services for the years ended June 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Legal and other consulting	\$ 86,832	\$ 81,410
Event supplies and services	<u>1,745</u>	<u>6,428</u>
	<u>\$ 88,577</u>	<u>\$ 87,838</u>

BLO receives additional donated services relating to various aspects of its operations. The value of these services does not meet the criteria for recording under U.S. GAAP; accordingly, no value is reflected in the accompanying financial statements.

Expense Allocations

Expenses related directly to a function are distributed to that function, while other expenses are allocated to functions based upon management's estimate of percentage attributable to each function. The financial statements contain certain categories of expenses that are attributable to program and supporting functions; therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, taxes and benefits, occupancy, information technology, bank fees and interest expense, insurance, office equipment and supplies, depreciation, and certain miscellaneous expenses. The expenses are allocated on the basis of estimates of time and effort and employee headcount.

Prepaid Expenses

At June 30, 2019 and 2018, prepaid expenses include approximately \$69,000 and \$198,000, respectively, of costs incurred relating to productions to be performed during the next fiscal year. These costs are expensed at the time of the related productions.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

BLO expenses advertising costs in the year of the related performance. During fiscal years 2019 and 2018, BLO incurred \$197,000 and \$173,000, respectively, of advertising costs. These costs are included in advertising and public relations in the accompanying statement of functional expenses for the year ended June 30, 2019.

Subsequent Events

Subsequent events have been evaluated through September 18, 2019, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements, except as disclosed in Note 7.

Income Taxes

BLO accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. BLO has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2019 and 2018. However, BLO's information returns are subject to examination by the appropriate jurisdictions.

3. NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by BLO. BLO has grouped its net assets without donor restrictions into the following categories:

Operating net assets represent funds available to carry on the operations of BLO.

Property and equipment net assets reflect the net book value of BLO's property and equipment.

Net Assets With Donor Restrictions

BLO receives contributions and grants which are designated by donors for specific time periods or purposes and are recorded as net assets with donor restrictions until they are expended for their designated purposes or as time restrictions expire. Net assets with donor restrictions also include endowment funds accumulated from donor-restricted gifts. Earnings from these gifts may be used for operations, but the principal may not be spent. In accordance with Massachusetts law, all earnings, including interest and dividends, and appreciation of a donor-restricted endowment are added to net assets with donor restrictions until appropriated by the Board of Directors, and are released to net assets without donor restrictions based on BLO's investment spending policy (see Notes 2 and 4).

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

3. NET ASSETS (Continued)

Net Assets With Donor Restrictions (Continued)

BLO's endowment includes a grant from the National Endowment for the Arts and matching funds totaling \$160,000. The grant terms stipulate that the funds are to be used to create a permanent reserve fund, which may be loaned to the net assets without donor restrictions for a period of up to one year.

The investment return on endowment is expendable for the support of BLO's operations, consistent with its spending policy (see Notes 2 and 4).

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Time restricted - future years	\$ 2,348,712	\$ 2,960,496
Purpose restricted	162,415	158,278
Time restricted - special events	<u>70,000</u>	<u>85,000</u>
Total other donor restrictions	<u>2,581,127</u>	<u>3,203,774</u>
Endowment donor corpus	15,039,461	14,008,461
Unspent appreciation on endowment	<u>1,807,685</u>	<u>1,422,181</u>
Total endowment	<u>16,847,146</u>	<u>15,430,642</u>
Total net assets with donor restrictions	<u>\$ 19,428,273</u>	<u>\$ 18,634,416</u>

4. ENDOWMENT

BLO's endowment consists of donor restricted funds established for a variety of purposes (see Note 3). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

BOSTON LYRIC OPERA COMPANYNotes to Financial Statements
June 30, 2019 and 2018**4. ENDOWMENT (Continued)**

A reconciliation of endowment activity for the years ended June 30, 2019 and 2018, is as follows:

	<u>With Donor Restrictions</u>		
	<u>Appreciation on Endowment</u>	<u>Endowment</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ <u>1,294,690</u>	\$ <u>13,932,903</u>	\$ <u>15,227,593</u>
Endowment contributions	<u>-</u>	<u>75,558</u>	<u>75,558</u>
Investment return, net:			
Interest and dividends	505,983	-	505,983
Net realized gains	155,459	-	155,459
Net unrealized gains	144,789	-	144,789
Investment fees	<u>(78,740)</u>	<u>-</u>	<u>(78,740)</u>
Total investment return, net	<u>727,491</u>	<u>-</u>	<u>727,491</u>
Investment return designated for current operations	<u>(600,000)</u>	<u>-</u>	<u>(600,000)</u>
Endowment net assets, June 30, 2018	<u>1,422,181</u>	<u>14,008,461</u>	<u>15,430,642</u>
Endowment contributions	<u>-</u>	<u>1,031,000</u>	<u>1,031,000</u>
Investment return, net:			
Interest and dividends	457,926	-	457,926
Net realized losses	(136,552)	-	(136,552)
Net unrealized gains	822,259	-	822,259
Investment fees	<u>(83,129)</u>	<u>-</u>	<u>(83,129)</u>
Total investment return, net	<u>1,060,504</u>	<u>-</u>	<u>1,060,504</u>
Investment return designated for current operations	<u>(675,000)</u>	<u>-</u>	<u>(675,000)</u>
Endowment net assets, June 30, 2019	<u>\$ 1,807,685</u>	<u>\$ 15,039,461</u>	<u>\$ 16,847,146</u>

BLO has adopted investment and spending policies for endowment assets. Endowment assets include those assets of donor restricted funds that BLO must hold in perpetuity. Under this policy, as approved by the Board of Directors, the primary long-term financial objective is to preserve the real (i.e. inflation adjusted) value of the endowment investment portfolio. This objective is measured on an intermediate and long-term basis (three, five and ten years). The secondary financial objectives are to provide within the parameters of moderate risk; 1) annual income, defined as total return from interest, dividends and appreciation in excess of inflation and; 2) long-term growth of the assets.

To satisfy its objectives, BLO relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). BLO targets a diversified asset allocation that includes equities and fixed income investments within prudent risk constraints.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

4. ENDOWMENT (Continued)

BLO has adopted an investment spending policy related to its endowment assets (see page 12) that incorporates the transfer of a portion of the value of endowment assets to the operating budget subject to various factors.

The spending policy is calculated as follows: each fiscal year BLO may, under the advisement of the Finance Committee, transfer to the operating budget an amount equal to the sum of the following:

- 70 percent of the prior fiscal year's draw
- 30 percent of 5 percent of the prior fiscal year's average quarterly market value of the endowment fund, inclusive of the endowment fund's pro rata share of investment management and custodial fees, but exclusive of prior years' new gifts
- 5 percent of the cash contributions (1.25 percent per quarter) for four consecutive quarters beginning with the quarter of receipt

In accordance with current state law - the Uniform Prudent Management of Institutional Funds Act, known as "UPMIFA", (adopted by the Commonwealth of Massachusetts on June 30, 2009) - BLO considers the following standards of prudence as it annually reviews the effects of the spending policy detailed above:

- 1) The policy and preservation of the endowment fund
- 2) The purposes of BLO and the endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation or deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of BLO
- 7) The investment policy of BLO

In the event of a significant market decline, BLO will consider all factors relevant to the stated goal in determining any change to the appropriation as allowed by UPMIFA.

BLO appropriated \$675,000 and \$600,000 of net assets during the years ended June 30, 2019 and 2018, respectively, to be used for operations in accordance with the spending policy.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 191,946	\$ 154,877
Software	152,399	152,399
Computer hardware	73,570	68,959
Furniture and fixtures	<u>61,852</u>	<u>61,852</u>
	479,767	438,087
Less - accumulated depreciation	<u>387,797</u>	<u>345,890</u>
	<u>\$ 91,970</u>	<u>\$ 92,197</u>

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

6. INVESTMENTS

Investments are carried at fair value. The following is a summary of the investment portfolio as of June 30, 2019 and 2018, by level within the valuation framework (see Note 2):

<u>Description</u>	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 2,585,229	\$ -	\$ 2,585,229
Money market accounts	513,119	-	-	513,119
Government and agency bonds	-	420,240	-	420,240
Preferred stocks:				
Domestic preferred stocks	1,667,584	-	-	1,667,584
Foreign preferred stocks	58,300	-	-	58,300
Equities:				
Foreign equities	1,925,161	-	-	1,925,161
Financial	1,754,450	-	-	1,754,450
Business products and services	1,750,343	-	-	1,750,343
Consumer non-durables	1,455,299	-	-	1,455,299
Capital goods	771,673	-	-	771,673
Information technology	469,286	-	-	469,286
Basic industries and materials	383,575	-	-	383,575
Consumer services	362,280	-	-	362,280
Other	314,316	-	-	314,316
Industrial electronics	220,097	-	-	220,097
Energy	188,047	-	-	188,047
Consumer durables and staples	154,607	-	-	154,607
Utilities	128,380	-	-	128,380
Mutual fund - foreign	-	662,330	-	662,330
	<u>\$ 12,116,517</u>	<u>\$ 3,667,799</u>	<u>\$ -</u>	<u>\$ 15,784,316</u>

<u>Description</u>	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 2,512,957	\$ -	\$ 2,512,957
Money market accounts	912,777	-	-	912,777
Government and agency bonds	-	239,925	-	239,925
Preferred stocks:				
Domestic preferred stocks	1,655,080	-	-	1,655,080
Foreign preferred stocks	58,344	-	-	58,344
Equities:				
Foreign equities	1,328,725	-	-	1,328,725
Financial	2,129,777	-	-	2,129,777
Business products and services	1,166,588	-	-	1,166,588
Consumer non-durables	1,769,932	-	-	1,769,932
Capital goods	582,300	-	-	582,300
Information technology	541,078	-	-	541,078
Consumer services	308,380	-	-	308,380
Other	462,734	-	-	462,734
Industrial electronics	187,044	-	-	187,044
Energy	438,253	-	-	438,253
Consumer durables and staples	110,065	-	-	110,065
Utilities	200,992	-	-	200,992
Mutual fund - foreign	-	679,601	-	679,601
	<u>\$ 11,852,069</u>	<u>\$ 3,432,483</u>	<u>\$ -</u>	<u>\$ 15,284,552</u>

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

6. INVESTMENTS (Continued)

Bonds are valued using several factors, including the credit rating relative to a corporate bond or government security with similar maturity or duration. Money market accounts, preferred stocks, and equities are valued based on quoted market prices in active markets. Shares in mutual funds are based on share prices reported by the fund as of the last business day of the fiscal year.

BLO believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2019 and 2018. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Investments are classified as long-term due to management's intent to hold these investments for long-term purposes. Investments are not insured and are subject to ongoing market fluctuations.

Investment return, net, consists of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Net unrealized gains on investments	\$ 825,562	\$ 145,371
Interest and dividends	459,765	507,360
Investment fees	(83,463)	(79,031)
Net realized gains (losses) on sale of investments	<u>(138,252)</u>	<u>156,308</u>
	<u>\$ 1,063,612</u>	<u>\$ 730,008</u>

7. LINE OF CREDIT AGREEMENT

BLO maintains a \$1,750,000 line of credit agreement with a commercial bank. Borrowings under the line of credit agreement are due on demand and interest is payable monthly at the higher of 4.0% or the bank's base lending rate (5.50% and 5.00% at June 30, 2019 and 2018, respectively), plus .50%. The line of credit is secured by all assets of BLO. BLO must comply with certain covenants as specified in the agreement. BLO was in compliance with these covenants at June 30, 2019 and 2018.

In fiscal year 2019, BLO drew down \$1,750,000, \$650,000 of which was repaid during the year. The remaining \$1,100,000 was outstanding as of June 30, 2019, and was repaid by July 31, 2019. In fiscal year 2018, BLO drew down \$1,750,000, \$1,500,000 of which was repaid during the year. The remaining \$250,000 was still outstanding as of June 30, 2018, and was repaid on July 11, 2018. The line of credit is renewable by the bank annually in October. Interest expense on the line of credit for fiscal years 2019 and 2018 was \$40,363 and \$43,008, respectively, which is included in bank fees and interest expense in the accompanying statement of functional expenses.

8. PLEDGES RECEIVABLE

Pledges receivable include numerous gifts which are expected to be collected over the next five years, and a charitable remainder trust which will be disbursed to BLO upon the death of the named survivors. Accordingly, this trust has been classified as long-term.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

8. PLEDGES RECEIVABLE (Continued)

Pledges receivable are due as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due in one year	\$ 4,657,905	\$ 3,197,411
Due in two to five years	1,145,500	1,428,500
Due in six to nine years	200,000	-
	<u>6,003,405</u>	<u>4,625,911</u>
Less - discount	92,616	33,839
Less - allowance for doubtful accounts	25,000	25,000
	<u>5,885,789</u>	<u>4,567,072</u>
Charitable Remainder Trust	<u>42,878</u>	<u>43,205</u>
	<u>\$ 5,928,667</u>	<u>\$ 4,610,277</u>

Long-term pledges receivable in the accompanying statements of financial position as of June 30, 2019 and 2018, include approximately \$1,002,000 and \$240,000, respectively, of endowment restricted pledges which are due in the following fiscal year. These have been reflected as long-term pledges receivable based on the permanent restriction of the gifts. Long-term pledges receivable in the accompanying statement of financial position as of June 30, 2019, also include approximately \$159,000 of endowment restricted long-term pledges, net of discount.

The pledges have been discounted using rates ranging from 1.71% to 2.73%.

The Charitable Remainder Trust is invested in a diversified suite of global equity and fixed income assets which are valued using Level 1 and 2 inputs under the fair value measurement framework (see Note 2). The value of the Charitable Remainder Trust is adjusted based on the survivor life expectancy and on prevailing interest rates, which are considered Level 2 inputs.

9. LEASE AGREEMENTS

BLO leases office space under an eight-year lease agreement which expired on July 31, 2019, and was extended through November 23, 2019. The lease requires monthly payments of \$11,333 as defined in the lease agreement. BLO received three months of free rent during fiscal year 2012. The lease requires BLO to pay for its proportionate share of real estate taxes, if applicable, and operating expenses.

BLO is recognizing rent expense on a straight-line basis over the term of the lease agreements described in accordance with ASC Topic, *Leases*. Accrued rent as of June 30, 2019 and 2018, was \$589 and \$7,652, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position.

BLO leases storage space under a five-year lease agreement which expires in July 2020. The lease requires monthly payments of \$2,550, which increase slightly each year.

BLO leases equipment under a sixty-three-month lease agreement which expires in August 2022. The lease requires monthly payments of \$1,353.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

9. LEASE AGREEMENTS (Continued)

Future minimum cash lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2020	\$ 103,381
2021	18,996
2022	16,236
2023	<u>2,706</u>
Total	<u>\$ 141,319</u>

10. LICENSE AGREEMENTS AND COMMITMENTS

BLO has entered into license agreements for fiscal year 2020 with Emerson College and the Commonwealth of Massachusetts' Department of Conservation and Recreation (DCR) to stage its four operatic productions for the upcoming 2019/2020 season. These license agreements include facility and box office rental and production labor.

Base payments to the licensors for the upcoming season, which include facility rental, box office, and certain other costs, are projected to be approximately \$201,000.

11. CONCENTRATIONS

BLO maintains its cash balances in various financial institutions in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each institution up to certain limits. At certain times during the year, cash balances exceeded the insured amounts. Management monitors on a regular basis, the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

At June 30, 2019, BLO had three donors who represented 54% of outstanding pledges receivable. At June 30, 2018, BLO had two donors who represented 24% of outstanding pledges receivable.

Pledges from Board members represent approximately 81% and 67% of outstanding pledges receivable as of June 30, 2019 and 2018, respectively.

For the years ended June 30, 2019 and 2018, approximately 20% and 22%, respectively, of BLO's total operating support and revenue was from one donor, who was also a Board member.

One donor represents approximately 97% of endowment contributions and grants for the year ended June 30, 2019. Two other donors, one of whom is a Board member, represented approximately 100% of endowment contributions and grants for the year ended June 30, 2018.

12. RETIREMENT PLAN

BLO has a defined contribution retirement plan (the Plan) covering all eligible employees under IRC Section 401(k). Employees become eligible to participate after completing three months of service and attaining the age of 21. BLO may make matching or discretionary contributions to the Plan. Employee contributions vest immediately and employer contributions vest based upon a vesting schedule as specified in the Plan document. During fiscal years 2019 and 2018, BLO contributed \$19,563 and \$21,168, respectively, to the Plan.

BOSTON LYRIC OPERA COMPANY

Notes to Financial Statements
June 30, 2019 and 2018

13. UNION CONTRACTS

BLO has collective bargaining agreements with the American Federation of Musicians (AFM), the American Guild of Musical Artists (AGMA), and the International Alliance of Theatrical Stage Employees (IATSE). During fiscal year 2018, BLO and AGMA entered into a new Collective Bargaining Agreement covering the period from August 1, 2017 through July 31, 2021. This agreement includes provisions covering wages, pension and other benefits. Approximately 35% of BLO's payroll consists of union employees.

14. BEQUESTS

Donors have notified BLO of certain bequests to which BLO will be entitled upon the donors' deaths. Since these gifts are conditional, BLO has not recorded these amounts in the accompanying financial statements.

15. LIQUIDITY

BLO is substantially supported by contributions with and without donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, BLO must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. BLO's liquidity management policy involves structuring financial assets to be available as general expenditures, liabilities and other obligations come due.

To help manage seasonal liquidity needs, BLO has a committed line of credit in the amount of \$1,750,000 (see Note 7) that it can draw upon. Additionally, BLO has endowment investments of approximately \$15.7 million (see Notes 4 and 6). Although BLO does not intend to spend from its endowment other than amounts appropriated for general expenditures as part of its spending policy and annual budget approval, amounts from appreciation on endowment net assets could be made available if necessary.

As of June 30, 2019, BLO's financial assets available within one year from the statement of financial position date for general operating expenses are as follows, and the amount covers approximately 60% of operating expenditures for the upcoming year:

Financial assets:	
Cash and cash equivalents available within one year	\$ 334,747
Accounts receivable	15,672
Endowment draw per spending policy for fiscal year 2020 (see Notes 2 and 4)	750,000
Pledges due within one year	<u>3,630,578</u>
Financial assets available to meet cash needs for general expenditures within one year	4,730,997
Liquidity resources:	
Line of credit available	<u>650,000</u>
Total financial assets and liquidity resources available to meet cash needs for general expenditures within one year	<u>\$ 5,380,997</u>

16. RECLASSIFICATION

Certain amounts in the fiscal year 2018 financial statements have been reclassified to conform with the fiscal year 2019 presentation.