

The Dallas Opera and the Dallas Opera Foundation

Consolidated Financial Statements
and Supplementary Information

June 30, 2020 and 2019



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 27
Supplementary Information	
Consolidating Statements of Financial Position	29 - 30
Consolidating Statements of Activities	31 - 32

INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors and Trustees
The Dallas Opera and the Dallas Opera Foundation
Dallas, Texas

We have audited the accompanying consolidated financial statements of The Dallas Opera and the Dallas Opera Foundation (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dallas Opera and the Dallas Opera Foundation as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 29 - 32 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
Dallas, Texas

October 8, 2020

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,624,644	\$ 351,126
Contributions receivable, net	2,109,810	6,887,497
Accounts receivable	39,980	38,181
Prepaid and other assets	978,693	1,134,126
Cash and cash equivalents held for endowment	1,785,257	1,455,667
Investments held for endowment	25,730,720	27,570,747
Property and equipment, net	5,005,983	5,256,472
Total assets	\$ 37,275,087	\$ 42,693,816
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 325,684	\$ 563,713
Accrued expenses	292,692	467,166
Deferred revenue - ticket sales	1,309,438	1,256,754
Deferred revenue - rentals and other	85,755	32,514
Line-of-credit	2,807,171	1,524,911
Term note payable	1,399,000	500,000
Related party notes payable	-	250,000
Total liabilities	6,219,740	4,595,058
Net assets		
Without donor restrictions	29,645	5,240,153
With donor restrictions	31,025,702	32,858,605
Total net assets	31,055,347	38,098,758
Total liabilities and net assets	\$ 37,275,087	\$ 42,693,816

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Earned income			
Admissions revenue	\$ 1,248,852	\$ -	\$ 1,248,852
Net realized and unrealized gains (losses)	312	(1,515,866)	(1,515,554)
Interest and dividends, net	176	1,206,996	1,207,172
Auxiliary event revenue	137,946	-	137,946
Rentals and other	202,326	-	202,326
Sponsorship revenue	82,500	-	82,500
Investment income released from restrictions	1,224,390	(1,224,390)	-
Total earned income	2,896,502	(1,533,260)	1,363,242
Support from the public			
Contributions	7,479,309	1,631,459	9,110,768
Contributions - special events	466,235	-	466,235
Grants	215,862	-	215,862
Loss on uncollectible receivables	(3,987,047)	-	(3,987,047)
Net assets released from restriction	1,931,102	(1,931,102)	-
Total support from the public	6,105,461	(299,643)	5,805,818
Total revenues and other support	9,001,963	(1,832,903)	7,169,060
Functional expenses			
Program services			
Artistic productions	9,260,333	-	9,260,333
Education and outreach	551,707	-	551,707
Total program services	9,812,040	-	9,812,040
Support services			
Management and general	3,122,391	-	3,122,391
Fundraising	1,278,040	-	1,278,040
Total support services	4,400,431	-	4,400,431
Total functional expenses	14,212,471	-	14,212,471
Change in net assets	(5,210,508)	(1,832,903)	(7,043,411)
Net assets, beginning of year	5,240,153	32,858,605	38,098,758
Net assets, end of year	\$ 29,645	\$ 31,025,702	\$ 31,055,347

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Earned income			
Admissions revenue	\$ 3,133,169	\$ -	\$ 3,133,169
Net realized and unrealized gains (losses)	(9,617)	316,533	306,916
Interest and dividends, net	209,740	1,218,957	1,428,697
Auxiliary event revenue	212,627	-	212,627
Rentals and other	229,565	-	229,565
Sponsorship revenue	82,500	-	82,500
Investment income released from restrictions	1,103,126	(1,103,126)	-
Total earned income	4,961,110	432,364	5,393,474
Support from the public			
Contributions	9,375,188	1,069,538	10,444,726
Contributions - special events	494,442	-	494,442
Grants	179,514	-	179,514
Loss on uncollectible receivables	(120,558)	-	(120,558)
Net assets released from restriction	1,996,432	(1,996,432)	-
Total support from the public	11,925,018	(926,894)	10,998,124
Total revenues and other support	16,886,128	(494,530)	16,391,598
Functional expenses			
Program services			
Artistic productions	12,604,938	-	12,604,938
Education and outreach	560,435	-	560,435
Total program services	13,165,373	-	13,165,373
Support services			
Management and general	3,301,315	-	3,301,315
Fundraising	1,376,850	-	1,376,850
Total support services	4,678,165	-	4,678,165
Total functional expenses	17,843,538	-	17,843,538
Change in net assets	(957,410)	(494,530)	(1,451,940)
Net assets, beginning of year	6,197,563	33,353,135	39,550,698
Net assets, end of year	\$ 5,240,153	\$ 32,858,605	\$ 38,098,758

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020

	<u>Artistic Productions</u>	<u>Education and Outreach</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses						
Salaries and artistic fees	\$ 6,453,280	\$ 135,098	\$ 6,588,378	\$ 1,042,759	\$ 548,952	\$ 8,180,089
Pension contributions	42,537	2,820	45,357	32,960	14,524	92,841
Other employee benefits	521,743	20,637	542,380	43,521	37,740	623,641
Payroll taxes	436,395	28,027	464,422	75,415	44,331	584,168
Total personnel expenses	<u>7,453,955</u>	<u>186,582</u>	<u>7,640,537</u>	<u>1,194,655</u>	<u>645,547</u>	<u>9,480,739</u>
Professional fees	-	-	-	253,972	14,922	268,894
Advertising and promotion	-	-	-	755,230	24,297	779,527
Office expenses	128,763	-	128,763	143,584	32,670	305,017
Information technology	-	-	-	245,827	81,943	327,770
Rent	144,883	-	144,883	79,200	26,400	250,483
Building maintenance	79,060	-	79,060	-	-	79,060
Utilities	29,596	-	29,596	27,650	9,216	66,462
Travel	168,168	1,028	169,196	15,657	3,914	188,767
Interest expense	-	-	-	79,471	-	79,471
Insurance	233,650	-	233,650	16,159	5,386	255,195
Outreach, guild and other special projects	194	364,097	364,291	-	409,350	773,641
Physical production costs	994,228	-	994,228	-	-	994,228
Depreciation	27,836	-	27,836	265,853	-	293,689
Other expenses	-	-	-	45,133	24,395	69,528
	<u>\$ 9,260,333</u>	<u>\$ 551,707</u>	<u>\$ 9,812,040</u>	<u>\$ 3,122,391</u>	<u>\$ 1,278,040</u>	<u>\$ 14,212,471</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

	<u>Artistic Productions</u>	<u>Education and Outreach</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses						
Salaries and artistic fees	\$ 8,331,283	\$ 118,293	\$ 8,449,576	\$ 975,885	\$ 544,580	\$ 9,970,041
Pension contributions	82,202	2,205	84,407	30,482	18,222	133,111
Other employee benefits	706,498	18,867	725,365	123,869	35,656	884,890
Payroll taxes	588,151	27,626	615,777	81,190	41,679	738,646
Total personnel expenses	<u>9,708,134</u>	<u>166,991</u>	<u>9,875,125</u>	<u>1,211,426</u>	<u>640,137</u>	<u>11,726,688</u>
Professional fees	-	-	-	173,730	36,090	209,820
Advertising and promotion	-	-	-	956,404	72,408	1,028,812
Office expenses	143,467	-	143,467	125,256	14,947	283,670
Information technology	-	-	-	166,474	55,491	221,965
Rent	396,153	-	396,153	79,200	26,400	501,753
Building maintenance	76,599	-	76,599	-	-	76,599
Utilities	28,308	-	28,308	24,671	8,224	61,203
Travel	268,102	727	268,829	4,313	6,072	279,214
Interest expense	-	-	-	222,556	-	222,556
Insurance	285,301	-	285,301	12,978	4,326	302,605
Outreach, guild and other special projects	86,560	392,717	479,277	-	484,747	964,024
Physical production costs	1,574,158	-	1,574,158	-	-	1,574,158
Depreciation	38,156	-	38,156	255,892	-	294,048
Other expenses	-	-	-	68,415	28,008	96,423
	<u>\$ 12,604,938</u>	<u>\$ 560,435</u>	<u>\$ 13,165,373</u>	<u>\$ 3,301,315</u>	<u>\$ 1,376,850</u>	<u>\$ 17,843,538</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (7,043,411)	\$ (1,451,940)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	293,689	294,048
Loss on uncollectible receivables	3,987,047	120,558
Net realized and unrealized (gains) losses on investments	1,515,554	(306,916)
Changes in operating assets and liabilities		
Contributions receivable, net	790,640	1,688,976
Accounts receivable	(1,799)	-
Prepaid and other assets	155,433	705,499
Accounts payable	(238,029)	(87,934)
Accrued expenses	(174,474)	188,557
Deferred revenue	105,925	(176,546)
Net cash provided by (used in) operating activities	<u>(609,425)</u>	<u>974,302</u>
Cash flows from investing activities		
Purchases of property and equipment	(43,200)	(56,515)
Purchase of investments	(2,343,918)	(2,823,632)
Proceeds from sale of investments	2,668,391	3,401,636
Net cash provided by investing activities	<u>281,273</u>	<u>521,489</u>
Cash flows from financing activities		
Line-of-credit borrowings	10,801,009	10,005,060
Line-of-credit repayments	(9,518,749)	(10,773,880)
Proceeds from term note payable	1,399,000	-
Repayment of term note payable	(500,000)	(500,000)
Repayment of related party notes payable	(250,000)	-
Net cash provided by (used in) financing activities	<u>1,931,260</u>	<u>(1,268,820)</u>
Net increase in cash, cash equivalents and restricted cash	1,603,108	226,971
Cash, cash equivalents and restricted cash, beginning of year	<u>1,806,793</u>	<u>1,579,822</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 3,409,901</u>	<u>\$ 1,806,793</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,624,644	\$ 351,126
Cash and cash equivalents held for endowment	<u>1,785,257</u>	<u>1,455,667</u>
	<u>\$ 3,409,901</u>	<u>\$ 1,806,793</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 79,471	\$ 222,556
--	-----------	------------

The accompanying notes are an integral part of these consolidated financial statements.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

1. NATURE OF OPERATIONS

The Dallas Opera (Opera), founded in 1957, is governed by the Opera Board of Directors (Opera's Board). The Opera is committed to producing opera performances of uncompromising artistic quality, educating and enriching the life of the community, and embracing its diverse cultural heritage. The Opera presents masterpieces of the standard repertoire, as well as nontraditional opera and musical theater, with multiple main stage performances each year, in addition to many school and community based programs. The Opera perpetuates the art form by commissioning new American works and is further committed to discovering and nurturing talented young artists.

The Dallas Opera Foundation (Foundation), established in 1984 as a 501(c)(3) trust, is governed by the Foundation's Board of Trustees (Foundation's Board). The Foundation is committed to providing financial support for the Opera. Assets of the Foundation include The Dallas Opera General Endowment Fund, The Dallas Opera Great Orchestra Fund, and The Dallas Opera Cultural Renaissance Endowment Fund.

Principles of consolidation

All significant intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements. The consolidated financial statements include the financial statements of the Opera and the Foundation. The Opera and the Foundation are collectively referred to herein as the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The accompanying consolidated financial statements include the accounts of the Organization and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Not-for-profit organizations are required to report information regarding their financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes in net assets are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets not subject to donor imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Opera's Board and the Foundation's Board.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and presentation (continued)

- *Net assets with donor restrictions* - Net assets subject to donor imposed restrictions that will be met by expenditure in accordance with the donors' requests and/or the passage of time. Other donor imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions also include the accumulated earnings of donor restricted endowment funds that are not required to be maintained in perpetuity, but rather until such funds are appropriated for expenditure. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as transfers between the applicable classes of net assets. Contributions with donor-imposed restrictions whose restrictions are satisfied in the same reporting period as received are reported as net assets without donor restrictions. Investment income (e.g. interest and dividends and realized and unrealized gains) with donor-imposed restrictions that are met in the same year as earned are also reported as net assets without donor restrictions.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity at date of purchase of three months or less as cash and cash equivalents.

Cash and cash equivalents held for the endowment represents the cash portion of the investment accounts that are held for long-term use for the endowment.

Contributions and promises to give

The Organization recognizes contributions when they are received or unconditionally pledged and records these amounts as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor-imposed restrictions.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give (continued)

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows at a discount rate which management believes is commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions. The Organization records an allowance for doubtful accounts which is estimated based on management's judgment including such factors as the current aging of contributions receivable.

Conditional promises to give are recognized when the conditions on which such promises depend are substantially met. There were no conditional contributions as of June 30, 2020 and 2019.

Investments and income recognition

Investments consist primarily of equity securities, fixed income securities, real estate and commodities. The Organization carries all investments at fair value as determined primarily by quoted market prices in active markets with increases or decreases in fair value being recognized in the period in which such changes occur. Realized and unrealized gain/loss and interest and dividend income, net of investment management fees are included in the accompanying consolidated statements of activities as changes in net assets with donor restrictions and net assets without donor restrictions in accordance with donor imposed restrictions.

Fair value measurements

The Organization applies the U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. U.S. GAAP describes three levels of inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's assumptions and best estimates based on available data.

The Organization holds pooled fixed income securities reported at level 2 based on the market price of the investments in the pool at the close of the last business day of the statement period or on the last available market price for each security in the fund.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes the valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

Endowment funds

The Foundation's endowment consists of three endowment funds established for the exclusive purpose of operating for the benefit of the Opera. The endowment includes funds that are donor-restricted endowment funds and a fund designated by the Foundation Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds without restriction represent those funds designated by the Foundation Board.

Interpretation of relevant law

The Organization adopted Financial Accounting Standards Board (FASB) guidance for net asset classification of endowment funds, subject to the Texas enacted version of the Uniform Prudent Management of Institutional Funds Act (Texas UPMIFA) and enhanced disclosures for all endowment funds. The Organization has adopted and interpreted Texas UPMIFA as requiring the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment in perpetuity, (b) the original value of subsequent gifts to the endowment in perpetuity, and (c) accumulations to the endowment explicitly requested to be held in perpetuity in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified within net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Texas UPMIFA.

The Organization interprets Texas UPMIFA as allowing the Foundation, absent donor restriction to the contrary, to appropriate so much of a donor-restricted endowment fund as the Foundation's Board determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established.

The following factors are considered in making a determination to appropriate or accumulate donor restricted endowment funds:

- the duration and preservation of the fund,
- the purposes of the donor-restricted endowment fund,

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Endowment funds (continued)

- general economic conditions,
- the possible effect of inflation and deflation,
- the expected total return from income and the appreciation of investments, and
- other resources of the Organization

In accordance with the State of Texas UPMIFA, the Organization adopted The Dallas Opera Foundation Amended and Restated Trust Agreement, which was approved by the Foundation Board on April 23, 2009. In conjunction with this agreement, the Foundation's Board adopted a revised investment and spending policy further outlined below.

Return objectives and risk parameters

The Foundation's Board has adopted investment and spending policies for endowment assets that attempt to provide a consistent stream of funding to programs supported by its endowment while seeking to preserve and enhance the purchasing and earning value of the Foundation's assets. Endowments include those assets of donor restricted funds that the Foundation must hold in perpetuity as well as board-designated funds.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Endowment funds (continued)

Strategies employed for achieving objectives

Endowment assets are invested in accordance with a target asset allocation and range approved by the Foundation's Board. Quarterly rebalancing is required for any class which falls outside the approved range. Assets held are well diversified and highly liquid, with the intent to minimize the risk of large losses.

Spending policies and how the investment objectives relate to the spending policies

Currently, the spending policy is divided into three areas: the General Endowment (GE), the Great Orchestra Fund (GOF), and the Cultural Renaissance Endowment Fund (CREF). GE's spending policy is at the quarterly rate of 1.25%, with the exception of two gifts within the GE that are expended at a rate of 5% annually. GOF's spending policy is at the quarterly rate of 1.1875% or 4.75% annually. Per explicit donor instruction, CREF's spending policy allows for distribution of the interest and dividends earned by the fund, net of investment fees, during the fiscal year previously ended. Other funds may be appropriated as deemed necessary by the Foundation's Board from time to time.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Texas UPMIFA requires the Organization to retain as a fund of perpetual duration. However, the fair value of assets associated with individual donor restricted endowment funds exceeded the level required at June 30, 2020 and 2019.

Property and equipment

Property and equipment and leasehold improvements are carried at cost, if purchased, or fair value at the date of gift, if donated. The Organization capitalizes all property and equipment that is purchased for more than \$500 and will provide future benefit to the Organization beyond one year. Expenditures for maintenance and repairs are charged to operations as incurred.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Building and building improvements	3-39 years
Automobiles	5 years
Furniture and equipment	3-15 years
Computer equipment	3-4 years

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue

Ticket sales are recognized as admissions revenue in the period in which the production occurs. Deferred revenue is comprised of ticket sales or rentals for which services or events have not yet been performed. These unearned revenues are deferred and recognized as the events or services are performed and costs are incurred. Tickets sold for the upcoming season are recorded in full as deferred revenue for the following season.

The Opera and other opera companies periodically and collectively agree to co-commission / co-produce certain opera productions. The Opera, as the administering co-commissioner / co-producer, oversees the creation and production of the performance and is given exclusive rights to premiere the performance. The other co-commissioners / co-producers reimburse The Opera for their share of costs associated with the creation and production of the performance and are given performance rights after the Opera's performance. Co-commission / co-production revenue is recognized in the period in which the premiere by the performance occurs.

Contributed services and facilities

Contributed services are reflected in the financial statements at the estimated fair value of the services received if they (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and, if not provided by donation, would typically need to be purchased. The Organization received \$137,187 and \$307,158 of donated facility space and contributed services for advertising, transportation, legal fees, and other miscellaneous services during the years ended June 30, 2020 and 2019, respectively, which are included in support from the public in the accompanying consolidated statements of activities.

A number of volunteers and outside institutions have donated significant amounts of time to assist the Organization. The value of donated volunteer time is not reflected in the accompanying consolidated financial statements as the criteria for recognition of such volunteer effort have not been satisfied.

Functional allocation of expenses

The Opera's expenses have been summarized in the accompanying consolidated statements of activities on a functional basis into program services and supporting services. Supporting services include management and general activities as well as fundraising activities. Management and general activities provide support allowing the Opera to effectively provide quality education, outreach, and artistic productions. They include activities that provide governance, oversight, business management, financial record keeping, budgeting, legal services, human resource management, production advertising, marketing and similar functions. Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions allowing the Opera to have the greatest impact on the community.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses (continued)

Certain functional expenses have been allocated among the programs and supporting services benefited based on usage and management estimates. These expenses include certain payroll expenses, which are allocated based on estimates of time and effort as produced by a study conducted by management, and depreciation and other occupancy expenses, which have been allocated based on the estimated square footage utilized within each function.

Production costs

The costs of costumes and scenery are charged to expense during the fiscal period in which the production is staged.

Advertising costs

The Opera expenses advertising costs in the year in which the related production is performed. Advertising expense of \$755,230 and \$956,404 for the years ended June 30, 2020 and 2019 are recorded in the accompanying statements of functional expenses within the advertising and promotion category of supporting services, respectively. Supporting services, such as advertising costs, allow the Opera to draw in new patrons of the arts and promote upcoming productions to current patrons and supporters.

Federal income taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. The Organization's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Organization uses a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. To the extent that the Organization's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Organization reports tax-related interest and penalties, if applicable, as a component of income tax expense, as incurred. As of June 30, 2020 and 2019, no uncertain tax positions have been identified by management and, therefore, no amounts have been recognized in the accompanying consolidated financial statements.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, support, and expenses during the reporting periods. Significant estimates include the allocation of functional expenses, useful lives of property and equipment, fair value of investments, and the valuation allowance for contributions receivable. Accordingly, actual results may vary from those estimates.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. Total consolidated net assets and change in net assets are unchanged due to these reclassifications.

New accounting pronouncements

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash* (ASU 2016-18), which applies to all entities that have restricted cash and are required to present a statement of cash flows under Topic 230. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as restricted cash herein) when reconciling beginning and ending balances in the statements of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the statements of financial position and the statements of cash flows. The Organization adopted ASU 2016-18 retrospectively during the year ended June 30, 2020.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether the transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization has adopted the standard as of July 1, 2019.

Subsequent events

Management of the Organization has evaluated subsequent events through October 8, 2020, the date the consolidated financial statements were available to be issued, and they are summarized in Note 17, of these consolidated financial statements.

3. GOING CONCERN

The financial statements have been prepared on the going concern basis, which assumes that the Opera will continue in operation. However, management identified the following conditions and events that created uncertainty about the ability of the Opera to continue as a going concern.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

3. GOING CONCERN (continued)

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. The Opera obtained benefit from the CARES act through the PPP loan discussed in Note 11. On March 13, 2020, Texas State Governor Abbott declared Texas a state of disaster due to COVID-19 and issued executive orders to mitigate the spread of COVID-19 in Texas. These orders advised that person-to-person contact heightens the risk of COVID-19 transmissions and ordered every person in Texas to avoid social gatherings in groups of more than 10 people. As a result of the executive orders, the Opera closed operations to the public as of March 13, 2020, cancelled all three productions in the 2020 Spring Season, and rescheduled productions from the 2020 Fall Season into the spring of 2021. As of October 8, 2020, 23 executive orders have been issued by Governor Abbott in the State of Texas, easing and heightening restrictions as deemed appropriate by the Governor's office, to mitigate the spread of COVID-19. The Organization is continuing to monitor and assess the effects of the COVID-19 pandemic on the Organization's operation. As of October 8, 2020, the Organization cannot reasonably estimate when the Opera will be able to reopen at full capacity.

The following describes how the conditions and events that raised substantial doubt about the Opera's ability to continue as a going concern were resolved. Operating costs were substantially reduced for the current and future years, including reductions in staff, salary cuts, and modification and elimination of artistic and production expenses. A new array of virtual programs, the TDO Network, was launched, and a pay-per-view series will be shown beginning in October, 2020. A major fund-raising initiative began in September, 2020. In addition, following agreement of certain donors to relax certain restrictions, the Foundation's Board agreed to make a special distribution, as provided for in the Dallas Opera Foundation Trust Agreement, to the Opera, and to extend a new loan of \$2,000,000 to the Opera to support current operations. The Organization will continue to utilize the income earned from the endowment, as designated and restricted by the donors, to support its operations.

4. CREDIT RISKS, CONCENTRATIONS AND UNCERTAINTIES

The Organization maintains its cash and cash equivalents in bank accounts which, at times, exceed federally insured limits. The Organization has not experienced any such losses in such accounts and believes it is not exposed to significant credit risk on cash.

At June 30, 2020, contributions receivable from four donors equaled approximately 53% of the total contributions receivable. At June 30, 2019 contributions receivable from two donors equaled approximately 64% of the total contributions receivable. For the year ended June 30, 2020, one donor provided support to the Organization which equaled approximately 22% of the total contributions. For the year ended June 30, 2019, two donors provided support to the Organization which equaled approximately 31% of the total contributions.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

4. CREDIT RISKS, CONCENTRATIONS AND UNCERTAINTIES (continued)

The Organization is continuing to monitor and assess the effects of the COVID-19 pandemic on the Organization's operations, the ultimate impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	2020	2019
Receivables due in less than one year	\$ 992,931	\$ 2,878,191
Receivables due in one to five years	889,594	2,032,592
Receivables due in greater than five years	482,500	3,232,500
	2,365,025	8,143,283
Less: discount to net present value	(138,309)	(939,585)
Less: allowance for doubtful contributions	(116,906)	(316,201)
	\$ 2,109,810	\$ 6,887,497

Contributions receivable were discounted to net present value based on the average of the U.S. treasury bill rate on the original pledge date and the established yearly endowment appropriation rate of the General Endowment Fund.

During the year ended June 30, 2020, the Organization entered into discussions with one donor about restructuring their long-term relationship, the results of which was the replacement of an approximate \$4,000,000 unconditional promise to give, with a more flexible and mutually beneficial intention to give. Intentions to give are not recorded in the accompanying financial statements. An adjustment was made to the accompanying consolidated statement of activities to recognize a loss on uncollectible contributions receivable.

6. INVESTMENTS HELD FOR ENDOWMENT

Investments consisted of the following:

	2020	2019
Equity securities	\$ 9,269,780	\$ 15,340,294
Fixed income securities	15,793,154	11,444,207
Real estate	380,413	451,063
Commodities	287,373	335,183
	\$ 25,730,720	\$ 27,570,747

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

7. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity securities	\$ 9,269,780	\$ -	\$ -	\$ 9,269,780
Fixed income securities	11,939,005	3,854,149	-	15,793,154
Real estate	380,413	-	-	380,413
Commodities	<u>287,373</u>	<u>-</u>	<u>-</u>	<u>287,373</u>
	<u>\$ 21,876,571</u>	<u>\$ 3,854,149</u>	<u>\$ -</u>	<u>\$ 25,730,720</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity securities	\$ 15,340,294	\$ -	\$ -	\$ 15,340,294
Fixed Income Securities	7,421,470	4,022,737	-	11,444,207
Real Estate	451,063	-	-	451,063
Commodities	<u>335,183</u>	<u>-</u>	<u>-</u>	<u>335,183</u>
	<u>\$ 23,548,010</u>	<u>\$ 4,022,737</u>	<u>\$ -</u>	<u>\$ 27,570,747</u>

The fixed income securities transferred from a Level 1 measurement to Level 2 on a retrospective basis during the year ended June 30, 2020 after the Organization evaluated the measurement within the fair value hierarchy.

8. ENDOWMENT

Composition and changes in endowment

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 27,510,814	\$ 27,510,814
Board-designated	<u>5,163</u>	<u>-</u>	<u>5,163</u>
	<u>\$ 5,163</u>	<u>\$ 27,510,814</u>	<u>\$ 27,515,977</u>

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

8. ENDOWMENT (continued)

Composition and changes in endowment (continued)

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 29,021,081	\$ 29,021,081
Board-designated	<u>5,333</u>	<u>-</u>	<u>5,333</u>
	<u>\$ 5,333</u>	<u>\$ 29,021,081</u>	<u>\$ 29,026,414</u>

Changes in endowment net assets for the fiscal years ended June 30, 2020 and 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2018	\$ 113,159	\$ 28,567,717	\$ 28,680,876
Net realized and unrealized gains (losses)	(9,617)	316,533	306,916
Interest and dividends, net	209,740	1,218,957	1,428,697
Contributions	-	21,000	21,000
Appropriation of assets for expenditure	1,103,126	(1,103,126)	-
Assets released from designations	(1,404,000)	-	(1,404,000)
Expenses	<u>(7,075)</u>	<u>-</u>	<u>(7,075)</u>
Balance, June 30, 2019	\$ 5,333	\$ 29,021,081	\$ 29,026,414
Net realized and unrealized gains (losses)	312	(1,515,866)	(1,515,554)
Interest and dividends, net	176	1,206,996	1,207,172
Contributions	-	22,993	22,993
Appropriation of assets for expenditure	1,224,390	(1,224,390)	-
Assets released from designations	<u>(1,225,048)</u>	<u>-</u>	<u>(1,225,048)</u>
Balance, June 30, 2020	<u>\$ 5,163</u>	<u>\$ 27,510,814</u>	<u>\$ 27,515,977</u>

The Foundation's Board loaned the Opera \$2,678,275 and \$2,698,275 from the endowment as of June 30, 2020 and 2019, respectively, that was eliminated upon consolidation. This loan is netted with a \$1,000,000 line of credit secured by the Foundation's endowment in the accompanying consolidating statements of activities as presented within the supplementary information.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Land	\$ 158,600	\$ 158,600
Building and building improvements	8,045,687	8,045,687
Automobiles	62,956	62,956
Furniture and equipment	1,236,142	1,210,834
Computer equipment	127,077	100,410
Work in progress	-	8,775
	9,630,462	9,587,262
Accumulated depreciation	(4,624,479)	(4,330,790)
	\$ 5,005,983	\$ 5,256,472

10. LINE-OF-CREDIT

The Opera has a \$3,000,000 line-of-credit with a financial institution which matures on March 2, 2021. The line-of-credit is due upon demand. The outstanding balance was \$1,807,171 and \$524,911 as of June 30, 2020 and 2019, respectively. Interest on outstanding borrowings under the line-of-credit is payable monthly at the greater of the prime rate (3.25% at June 30, 2020) or 1.00%. Interest expense totaled \$32,168 and \$42,650 during the years ended June 30, 2020 and 2019, respectively. Borrowings under the line-of-credit are collateralized by all assets of the Organization.

During the year ended June 30, 2013, the Foundation entered into a one-year \$1,000,000 line-of-credit note with a financial institution that, through its affiliates, is also the trustee for Foundation's cash and investments which collateralize borrowings under the note. This note renews annually. On July 17, 2019, the Foundation renewed the line of credit, which now matures on July 11, 2020, with substantially the same terms. Interest on the line-of-credit is payable monthly at the Overnight LIBOR-Based Rate (0.08% at June 30, 2020) plus 2%. As discussed in Note 17, subsequent to year end, the Foundation renewed the line of credit through July 15, 2021, with substantially the same terms.

During the year ended June 30, 2020, the Foundation Board approved a \$1,000,000 draw against its line of credit, the proceeds of which it loaned to the Opera, in advance of the Foundation's annual dividend and interest income distribution to the Opera from the CREF. As discussed in Note 17, this advance was repaid from the Opera to the Foundation and the line of credit repaid in July of 2020, subsequent to year end.

The Organization is subject to certain financial debt covenant requirements under the terms of line-of-credit. As of June 30, 2020 the Organization was not in compliance with one of those covenants, but has received a waiver from the financial institution with respect to that covenant.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

11. NOTES PAYABLE

During the year ended June 30, 2017, the Opera borrowed \$1,500,000 from a financial institution under the terms of a Term Note (Term Note). The Term Note accrued interest at a rate equal to the greater of 2.50% or the sum of the Overnight LIBOR-Based Rate plus the rate margin (2.58% at June 30, 2020). Interest expense totaled \$16,473 and \$42,166 during the years ended June 30, 2020 and 2019, respectively. The outstanding principal balance of the Term Note as of June 30, 2019 totaled \$500,000. The Term Note matured on April 2, 2020 and was paid in full during the year ended June 30, 2020.

On April 10, 2020, the Opera received loan proceeds of \$1,399,000 from a promissory note issued by Security National Bank under the Paycheck Protection Program (PPP) which was established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the U.S. Small Business Administration. The Opera has elected to record this loan under ASC 470, Debt in which any subsequent forgiveness of the debt would result in a gain on extinguishment in the period when the Opera is legally released from the obligations of the debt. The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Opera plans to return any unused funds at the end of the loan period and believes that it will likely qualify for full or partial forgiveness on loan funds used, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Opera will obtain forgiveness in whole or in part.

Required principal payments under the terms of the agreements are due as follows:

Year ending June 30,

2021	\$ 630,052
2022	<u>768,948</u>
	<u>\$ 1,399,000</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Time restricted for specific use in future years	<u>\$ 3,514,888</u>	<u>\$ 3,837,524</u>

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

12. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Subject to spending policy and appropriations:

	2020	2019
Endowments invested in perpetuity (including amounts above original gift amount of \$22,691,145 which, once appropriated, are expendable to support)		
General Endowment Fund	\$ 3,290,508	\$ 3,443,800
Cultural Renaissance Endowment Fund	23,942,826	25,284,733
Great Orchestra Endowment Fund	277,480	292,548
	\$ 27,510,814	\$ 29,021,081

Net assets with donor restrictions released from restriction were as follows for the year ended June 30:

	2020	2019
Release based on time restriction	\$ 1,931,102	\$ 1,996,432
Release of investment income	1,224,390	1,103,126
	\$ 3,155,492	\$ 3,099,558

13. LIQUIDITY AND FUNDS AVAILABLE

The following disclosure describes assets that are available or expected to be available within one year of June 30, 2020 to fund general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 1,624,644
Contributions receivable, net	2,109,810
Accounts receivable	39,980
Cash and cash equivalents held for endowment	1,785,257
Investments held for endowment	25,730,720
	31,290,411
Less amounts unavailable for general expenditure within one year:	
Board-designated endowment	(5,163)
Long-term contributions receivable, net	(1,116,879)
Short-term contributions receivable for use in future years	(572,684)
Donor restricted endowment	(27,510,814)
	(29,205,540)
	\$ 2,084,871

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

13. LIQUIDITY AND FUNDS AVAILABLE (continued)

The Organization structures its financial assets to be available as its general expenditures, liabilities, or other obligations become due.

As stated in Note 11 to the consolidated financial statements, the Opera has a \$3,000,000 line of credit available until maturity of March 2, 2021 that could be drawn upon in the event of a liquidity need, subject to the agreement by the lender. As of June 30, 2020, the maximum available balance of the line of credit is \$1,192,829.

14. COMMITMENTS AND CONTINGENCIES

Leases

On September 27, 2010, the Facilities Use Agreement was finalized between the Dallas Center for the Performing Arts (DCPA) and the Opera. The agreement documents the understandings and terms of the Opera occupying the AT&T Performing Arts Center and presenting productions in the Margot and Bill Winspear Opera House. The agreement is effective from September 1, 2009, through December 31, 2049. The Opera may extend the agreement for five consecutive periods of ten years each. Under the agreement, the Opera will pay a daily rental fee for the use of the Margot and Bill Winspear Opera House during the "center use period", which is a continuous period of time, generally six weeks, which the Opera has reserved for its productions.

For the 2013 through 2015 performance seasons, daily rental fees were multiplied and increased by an adjustment as determined by the Business Office Management Association (BOMA Adjustment) as defined in the agreement. The BOMA Adjustment will fluctuate from year to year. Subsequent to the 2015 performance season, in five year increments, rent will be determined in good faith by both parties. In the agreement dated February 2012 (for the first five year increment), the BOMA Adjustment will continue to be used for years 2016 to 2020. In addition to rent for the use of the Margot and Bill Winspear Opera House, the Opera will pay DCPA certain parking fees per space during performances and rehearsals. Parking fees are subject to adjustment based on DCPA's discretion. Notice of any adjustment must be provided to the Opera at least 12 months in advance and the new rate cannot be more than 75% of the parking fee then currently charged to the general public by DCPA. Rent expense for the use of the Margot and Bill Winspear Opera House and parking fees totaled \$142,445 and \$393,397 for the years ended June 30, 2020 and 2019, respectively.

The Organization has a noncancelable sublease agreement for the Organization's offices in the Margot and Bill Winspear Opera House under which the Organization agrees to pay certain operating expenses. On January 7, 2010, the Organization signed the sublease agreement with DCPA for a period of 40 years ending December 31, 2049. There are no escalation terms; however, DCPA may adjust the monthly rent of \$8,800 on a prospective basis based on an index or agreement with the Organization beginning January 1, 2013, and once every twelve months thereafter.

Rent expense under office space leases was \$105,600 for the years ended June 30, 2020 and 2019, respectively.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

14. COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

The Organization has noncancelable operating leases for certain office equipment. Rent expense under the office equipment leases was \$47,586 and \$43,239 for the years ended June 30, 2020 and 2019, respectively.

The future minimum lease payments required under noncancelable operating leases with initial or remaining terms in excess of one year were as follows:

<u>Year ending June 30,</u>	
2021	\$ 146,622
2022	123,022
2023	107,005
2024	105,600
2025	105,600
Thereafter	<u>2,692,800</u>
	<u><u>\$ 3,280,649</u></u>

Future production

The Organization enters into noncancelable agreements related to activities for future productions. At June 30, 2020, future minimum payments required under noncancelable artist contracts and set and costume rental agreements were as follows:

<u>Year ending June 30,</u>	
2021	\$ 1,729,513
2022	677,000
2023	<u>342,750</u>
	<u><u>\$ 2,749,263</u></u>

Legal

The Organization is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, change in net assets, or cash flows of the Organization.

The Dallas Opera and the Dallas Opera Foundation
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

15. EMPLOYEE BENEFIT PLANS

The Organization sponsors a tax deferred annuity retirement plan through Fidelity Investment Advisors, Inc. This 403(b) plan is available to all qualified employees at the first day of employment. The Organization contributes two percent of the participants' compensation, plus an additional fifty percent match of the first four percent of compensation that the participant contributes. The Organization made contributions of \$128,365 and \$100,973 to the plan for the years ended June 30, 2020 and 2019, respectively.

The Organization contributed to three multi-employer pension plans under the terms of collective-bargaining agreements that cover its union-represented contractors. The Organization made contributions of \$200,565 and \$246,025 to these plans during the years ended June 30, 2020 and 2019, respectively.

16. RELATED PARTIES

During 2016, the Organization entered into agreements to borrow \$500,000 from four members of the Opera's Board . Each note accrues interest at a rate of 4.50% and matures on December 31, 2019. During 2016, one of the members of the Opera's Board elected to forgive their note and contribute the total outstanding balance of \$125,000. During 2017, a separate member of the Opera's Board elected to forgive their note and contribute the total outstanding balance of \$125,000. The outstanding balance on the related party notes as of June 30, 2019 totaled \$250,000 and was paid in full during the year ended June 30, 2020. Interest expense totaled \$5,625 and \$11,250 during the years ended June 30, 2020 and 2019, respectively.

Approximately \$819,610 and \$5,114,785 of total contributions receivable was due from members of the Opera's Board and the Foundation's Board as of June 30 2020 and 2019, respectively. Total contribution revenue from members of the Opera's Board and Foundations's Board for the years ended June 30, 2020 and 2019, was \$3,630,095 and \$3,074,985, respectively.

17. SUBSEQUENT EVENTS

In July of 2020, the Foundation repaid the \$1,000,000 line of credit drawn in fiscal year 2020. The Foundation further extended its \$1,000,000 line-of-credit note through July 15, 2021, at terms no less favorable to the Foundation. As discussed in note 3, in September of 2020, having received permission from certain donors to relax certain restrictions, the Foundation's board approved a loan to support current operations of the Opera. The Organization has determined that no additional disclosures were required.

SUPPLEMENTARY INFORMATION

The Dallas Opera and the Dallas Opera Foundation
Consolidating Statement of Financial Position
June 30, 2020

ASSETS

	The Dallas Opera	The Dallas Opera Foundation	Eliminating Entries	Total
Cash and cash equivalents	\$ 1,624,644	\$ -	\$ -	\$ 1,624,644
Contributions receivable, net	2,109,810	-	-	2,109,810
Accounts receivable	39,980	-	-	39,980
Prepaid and other assets	978,693	-	-	978,693
Notes receivable from the Opera	-	2,678,275	(2,678,275)	-
Cash and cash equivalents held for endowment	-	1,785,257	-	1,785,257
Investments held for endowment	-	25,730,720	-	25,730,720
Property and equipment, net	5,005,983	-	-	5,005,983
Total assets	<u>\$ 9,759,110</u>	<u>\$ 30,194,252</u>	<u>\$ (2,678,275)</u>	<u>\$ 37,275,087</u>

LIABILITIES AND NET ASSETS

Liabilities				
Accounts payable	\$ 325,684	\$ -	\$ -	\$ 325,684
Accrued expenses	292,692	-	-	292,692
Deferred revenue - ticket sales	1,309,438	-	-	1,309,438
Deferred revenue - rentals and other	85,755	-	-	85,755
Line-of-credit	1,807,171	1,000,000	-	2,807,171
Term note payable	1,399,000	-	-	1,399,000
Notes payable to the Foundation	2,678,275	-	(2,678,275)	-
Total liabilities	<u>7,898,015</u>	<u>1,000,000</u>	<u>(2,678,275)</u>	<u>6,219,740</u>
Net assets				
Without donor restrictions				
Board-designated endowment	-	1,683,438	(1,678,275)	5,163
Undesignated	(1,653,793)	-	1,678,275	24,482
Total without donor restrictions	(1,653,793)	1,683,438	-	29,645
With donor restrictions	3,514,888	27,510,814	-	31,025,702
Total net assets	<u>1,861,095</u>	<u>29,194,252</u>	<u>-</u>	<u>31,055,347</u>
Total liabilities and net assets	<u>\$ 9,759,110</u>	<u>\$ 30,194,252</u>	<u>\$ (2,678,275)</u>	<u>\$ 37,275,087</u>

The Dallas Opera and the Dallas Opera Foundation
Consolidating Statement of Financial Position
June 30, 2019

ASSETS

	The Dallas Opera	The Dallas Opera Foundation	Eliminating Entries	Total
Cash and cash equivalents	\$ 351,126	\$ -	\$ -	\$ 351,126
Contributions receivable, net	6,887,497	-	-	6,887,497
Accounts receivable	38,181	-	-	38,181
Prepaid expenses and other assets	1,134,126	-	-	1,134,126
Notes receivable from the Opera	-	2,698,275	(2,698,275)	-
Cash and cash equivalents held for endowment	-	1,455,667	-	1,455,667
Investments held for endowment	-	27,570,747	-	27,570,747
Property and equipment, net	5,256,472	-	-	5,256,472
Total assets	<u>\$ 13,667,402</u>	<u>\$ 31,724,689</u>	<u>\$ (2,698,275)</u>	<u>\$ 42,693,816</u>

LIABILITIES AND NET ASSETS

Liabilities				
Accounts payable	\$ 563,713	\$ -	\$ -	\$ 563,713
Accrued expenses	467,166	-	-	467,166
Deferred revenue - ticket sales	1,256,754	-	-	1,256,754
Deferred revenue - rentals and other	32,514	-	-	32,514
Line-of-credit	524,911	1,000,000	-	1,524,911
Term note payable	500,000	-	-	500,000
Related party notes payable	250,000	-	-	250,000
Notes payable to the Foundation	2,698,275	-	(2,698,275)	-
Total liabilities	<u>6,293,333</u>	<u>1,000,000</u>	<u>(2,698,275)</u>	<u>4,595,058</u>
Net assets				
Without donor restrictions				
Board-designated endowment	-	1,703,608	(1,698,275)	5,333
Undesignated	3,536,545	-	1,698,275	5,234,820
Total without donor restrictions	3,536,545	1,703,608	-	5,240,153
With donor restrictions	3,837,524	29,021,081	-	32,858,605
Total net assets	<u>7,374,069</u>	<u>30,724,689</u>	<u>-</u>	<u>38,098,758</u>
Total liabilities and net assets	<u>\$ 13,667,402</u>	<u>\$ 31,724,689</u>	<u>\$ (2,698,275)</u>	<u>\$ 42,693,816</u>

The Dallas Opera and the Dallas Opera Foundation
Consolidating Statement of Activities
June 30, 2020

	The Dallas Opera	The Dallas Opera Foundation	Eliminating Entries	Total
Revenues and other support				
Earned income				
Admissions revenue	\$ 1,248,852	\$ -	\$ -	\$ 1,248,852
Net realized and unrealized gains (losses)	-	(1,515,554)	-	(1,515,554)
Interest and dividends, net	3,975	1,203,197	-	1,207,172
Auxiliary event revenue	137,946	-	-	137,946
Rentals and other	202,326	-	-	202,326
Sponsorship revenue	82,500	-	-	82,500
Investment income transferred from the Foundation	1,225,973	-	(1,225,973)	-
Total earned income	2,901,572	(312,357)	(1,225,973)	1,363,242
Support from the public				
Contributions	9,087,775	22,993	-	9,110,768
Contributions - special events	466,235	-	-	466,235
Grants	215,862	-	-	215,862
Loss on uncollectible receivables	(3,987,047)	-	-	(3,987,047)
Transfers from the Foundation	7,413	-	(7,413)	-
Total support from the public	5,790,238	22,993	(7,413)	5,805,818
Total revenues and other support	8,691,810	(289,364)	(1,233,386)	7,169,060
Expenses				
Program services				
Artistic productions	9,260,333	-	-	9,260,333
Education and outreach	551,707	-	-	551,707
Investment income transferred to the Opera	-	1,225,973	(1,225,973)	-
Transfer to The Dallas Opera	-	7,413	(7,413)	-
Total program services	9,812,040	1,233,386	(1,233,386)	9,812,040
Supporting services				
Management and general	3,114,704	7,687	-	3,122,391
Fundraising	1,278,040	-	-	1,278,040
Total supporting services	4,392,744	7,687	-	4,400,431
Total expenses	14,204,784	1,241,073	1,233,386	14,212,471
Change in net assets	(5,512,974)	(1,530,437)	-	(7,043,411)
Net assets, beginning of year	7,374,069	30,724,689	-	38,098,758
Net assets, end of year	\$ 1,861,095	\$ 29,194,252	\$ -	\$ 31,055,347

The Dallas Opera and the Dallas Opera Foundation
Consolidating Statement of Activities
June 30, 2019

	<u>The Dallas Opera</u>	<u>The Dallas Opera Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenues and other support				
Earned income				
Admissions revenue	\$ 3,133,169	\$ -	\$ -	\$ 3,133,169
Net realized and unrealized gains (losses)	-	306,916	-	306,916
Interest and dividends, net	460	1,428,237	-	1,428,697
Auxiliary event revenue	212,627	-	-	212,627
Rentals and other	229,565	-	-	229,565
Sponsorship revenue	82,500	-	-	82,500
Investment income transferred from the Foundation	1,341,893	-	(1,341,893)	-
Total earned income	<u>5,000,214</u>	<u>1,735,153</u>	<u>(1,341,893)</u>	<u>5,393,474</u>
Support from the public				
Contributions	10,423,726	21,000	-	10,444,726
Contributions - other	494,442	-	-	494,442
Grants	179,514	-	-	179,514
Loss on uncollectible receivables	(120,558)	-	-	(120,558)
Transfer from the Foundation	21,000	-	(21,000)	-
Total support from the public	<u>10,998,124</u>	<u>21,000</u>	<u>(21,000)</u>	<u>10,998,124</u>
Total revenues and other support	<u>15,998,338</u>	<u>1,756,153</u>	<u>(1,362,893)</u>	<u>16,391,598</u>
Expenses				
Program services				
Artistic productions	12,604,938	-	-	12,604,938
Education and outreach	560,435	-	-	560,435
Investment income transferred to the Opera	-	1,341,893	(1,341,893)	-
Transfer to The Dallas Opera	-	21,000	(21,000)	-
Total program services	<u>13,165,373</u>	<u>1,362,893</u>	<u>(1,362,893)</u>	<u>13,165,373</u>
Supporting services				
Management and general	3,294,700	6,615	-	3,301,315
Fundraising	1,376,850	-	-	1,376,850
Total supporting services	<u>4,671,550</u>	<u>6,615</u>	<u>-</u>	<u>4,678,165</u>
Total expenses	<u>17,836,923</u>	<u>1,369,508</u>	<u>1,362,893</u>	<u>17,843,538</u>
Change in net assets	(1,838,585)	386,645	-	(1,451,940)
Net assets, beginning of year	<u>9,212,654</u>	<u>30,338,044</u>	<u>-</u>	<u>39,550,698</u>
Net assets, end of year	<u>\$ 7,374,069</u>	<u>\$ 30,724,689</u>	<u>\$ -</u>	<u>\$ 38,098,758</u>