

**PALM BEACH OPERA, INC.**

***Financial Statements***

***For the year ended  
May 31, 2014***

**Hafer & Company**

***Certified Public Accountants and Consultants***

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Palm Beach Opera, Inc.  
West Palm Beach, Florida

We have audited the accompanying financial statements of Palm Beach Opera, Inc. ("the Opera"), which comprise the statement of financial position as of May 31, 2014, and the related statement of activities and changes in net assets and cash flows for the year then ended 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***

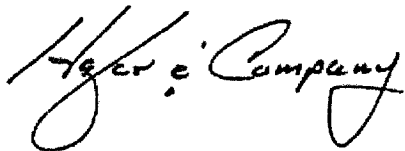
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

An audit 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, financial statements referred to above present fairly, in all material respects, the financial position of Palm Beach Opera, Inc. as of May 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Palm Beach, Florida  
September 19, 2014

**PALM BEACH OPERA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**May 31, 2014**

**Assets**

Cash and cash equivalents	\$ 671,097
Certificate of deposit - unrestricted	4,552
Certificate of deposit - Florida Cultural Endowment Program Fund (Notes 2, 3 and 12)	1,200,000
Pledges receivable (Note 8)	198,070
Grants receivable	225,479
Prepaid expenses	63,843
Property and equipment, net (Note 9)	225,432
Beneficial interest in perpetual trust (Notes 4, 5 and 12)	282,205
Other assets	<u>487</u>
<b>Total assets</b>	<b><u>\$ 2,871,165</u></b>

**Liabilities and net assets**

Accounts payable and accrued liabilities	\$ 102,099
Deferred revenues	470,844
Line of credit payable - Northern Trust (Note 7)	<u>10,000</u>
Total liabilities	582,943
<b>Net assets</b>	
Unrestricted	10,468
Temporarily restricted (Note 11)	795,549
Permanently restricted (Note 12)	<u>1,482,205</u>
Total net assets	<u>2,288,222</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,871,165</u></b>

See notes to financial statements.

**PALM BEACH OPERA, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
*For the year ended May 31, 2014*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating support and revenues</b>				
Opera revenues	\$ 1,153,987	\$ -	\$ -	\$ 1,153,987
Contributions	2,709,808	372,000	-	3,081,808
Grant income	87,513	225,479	-	312,992
Special events	377,150	-	-	377,150
Investment income	5,219	-	-	5,219
Other income	29,091	-	-	29,091
Net assets released from restrictions	<u>828,203</u>	<u>(828,203)</u>	<u>-</u>	<u>-</u>
Total operating support and revenues	5,190,971	(230,724)	-	4,960,247
<b>Operating expenses</b>				
Program services:				
Production	2,469,418	-	-	2,469,418
Box office	89,740	-	-	89,740
Education	140,576	-	-	140,576
Supporting services:				
General and administrative	651,719	-	-	651,719
Development	561,208	-	-	561,208
Marketing	<u>532,385</u>	<u>-</u>	<u>-</u>	<u>532,385</u>
Total operating expenses	<u>4,445,046</u>	<u>-</u>	<u>-</u>	<u>4,445,046</u>
<b>Change in net assets from operations</b>	745,925	(230,724)	-	515,201
<b>Non-operating revenues, support, gains, losses and expenses</b>				
Depreciation expense	(20,829)	-	-	(20,829)
Unrealized loss on beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>(1,099)</u>	<u>(1,099)</u>
Total non-operating revenues, support, gains, losses and expenses	<u>(20,829)</u>	<u>-</u>	<u>(1,099)</u>	<u>(21,928)</u>
<b>Change in net assets</b>	725,096	(230,724)	(1,099)	493,273
Net assets, beginning of the year	<u>(714,628)</u>	<u>1,026,273</u>	<u>1,483,304</u>	<u>1,794,949</u>
<b>Net assets, end of the year</b>	<u>\$ 10,468</u>	<u>\$ 795,549</u>	<u>\$ 1,482,205</u>	<u>\$ 2,288,222</u>

See notes to financial statements.

**PALM BEACH OPERA, INC.**  
**STATEMENT OF CASH FLOWS**  
*For the year ended May 31, 2014*

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 493,273
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation expense	20,829
Adjustments to reflect compensated absences	(5,000)
Unrealized loss on beneficial interest in perpetual trusts	1,099
<b>Change in assets and liabilities:</b>	
Accounts receivable	13,926
Pledges receivable	162,130
Grants receivable	(154,907)
Prepaid expenses	(51,668)
Other assets	4,270
Accounts payable and accrued liabilities	(37,836)
Deferred revenues	(95,469)
	<hr/>
Net cash provided by operating activities	350,647
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	(93,763)
Proceeds from beneficial interest in remainder trust	655,701
Reinvestment of interest earned on certificate of deposit	(1,395)
	<hr/>
Net cash provided by investing activities	560,543
<b>Cash flows (to) investing activities:</b>	
Principal payments on line of credit payable	(690,000)
	<hr/>
<b>Net increase in cash and cash equivalents</b>	221,190
Cash and cash equivalents, beginning of year	449,907
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<b>Cash and cash equivalents, end of year</b>	<u>\$ 671,097</u>
<b>Supplemental disclosures:</b>	
Cash paid for income taxes	<u>\$ -</u>
Cash paid for interest	<u>\$ 18,344</u>

See notes to financial statements.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
*May 31, 2014*

**NOTE 1: Organization**

Palm Beach Opera, Inc. ("the Opera") is a not-for-profit organization incorporated in the State of Florida in May 1962. The Opera is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. The Opera's mission is to produce grand and light opera of the highest quality for the citizens of Palm Beach County and educate the public, particularly young people, to the joys of opera and the fine arts. Ticket sales and general contributions from donors represent the Opera's largest sources of revenue. Palm Beach Opera, Inc. is located in West Palm Beach, Florida.

**NOTE 2: Summary of significant accounting policies**

Net assets

The financial statements of the Opera have been prepared on the accrual basis of accounting in accordance with accounting principles for not-for-profit organizations whereby revenues and gains are recorded when earned and expenses and losses are recorded when incurred. Resources are classified for accounting and reporting purposes into three categories of net assets – unrestricted, temporarily restricted, or permanently restricted – according to externally (donor) imposed restrictions.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the Opera to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of the Opera are presented in the financial statements as unrestricted operating funds that increase or decrease unrestricted net assets.

Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because the Opera has fulfilled the restrictions. The Opera chooses to recognize activity whose restrictions are met in the same reporting period as unrestricted support.

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse, thus requiring the assets to be maintained permanently as endowment funds. Net realized and unrealized appreciation on endowment funds are classified in the financial statements as part of unrestricted, temporarily restricted, or permanently restricted net assets based on donors' restrictions and interpretations of Florida law.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results may differ from those estimates.

Cash and cash equivalents

The Opera considers highly liquid investments and investments with original maturities of three months or less to be cash and cash equivalents.

Prepaid expenses

Expenses applicable to the next fiscal year are included in prepaid expenses. Included in prepaid expenses at May 31, 2014 are insurance coverage, various other administrative costs, and costs associated with future productions.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2014*

**NOTE 2: Summary of significant accounting policies (continued)**

Certificates of deposit

Certificates of deposit consist of a certificate with an original maturity of more than 90 days. The certificates are carried at cost plus any interest earned and reinvested. The Opera, at least annually, assesses for any other-than-temporary impairment, and as of the date of these financial statements, the Opera does not believe any impairment exists.

Property and equipment

Property and equipment are stated at cost when purchased or at fair value at the date of donation. The Opera generally capitalizes all expenditures for these items in excess of \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally five to ten years for furniture and equipment and twenty to forty years for building and improvements. Amortization of assets under capital leases, when applicable, is included in depreciation expense.

Deferred revenues

Deferred revenues represent funds received from advance ticket sales for the upcoming season of the Opera, as well as membership dues applicable to the 2014 – 2015 fiscal year.

Contributions

The Opera follows FASB ASC 958-310, which requires that contributions received and made, including unconditional promises to give, shall be recognized as revenue or gains or expenses, respectively, in the period received or made.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods (time restrictions) or are restricted by the donor for specific purposes (purpose restriction) are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

From time to time, the Opera is informed of intentions to give by prospective donors. Such expressions of intent are revocable and unenforceable. The ultimate value of these expressions has not been established, and they are not recognized in the accompanying financial statements.

Donated services

Donated services have not been reflected in the accompanying financial statements because no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to the Opera's administration, educational programs and fundraising campaigns.

Short-term financial instruments

The carrying amount of the Opera's financial instruments, which include cash and cash equivalents, assessments and accounts receivable, accounts payable, accrued expenses, and other assets and liabilities, approximate their fair values due to their short-term maturities.

Advertising

The Opera expenses the cost of advertising as incurred. Advertising expense was \$224,945 for the year ended May 31, 2014.



PALM BEACH OPERA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
May 31, 2014

**NOTE 2: Summary of significant accounting policies (continued)**

Income taxes

Under provisions of the Internal Revenue Code, Section 501(c)(3), and the applicable income tax regulations of the State of Florida, the Opera is exempt from taxes on income other than unrelated business income. Since the Opera had no net unrelated business income for the year ended May 31, 2014, no provision for income taxes has been made. The Opera has been classified as a publicly supported organization that is not a private foundation under Section 501(c)(3) of the Code.

The Opera has adopted FASB ASC 740 which clarifies the accounting for uncertainty in income taxes by defining the attributes a tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with generally accepted accounting principles. In accordance with the disclosure requirements, the Opera's policy on statement of activities classification of interest and penalties related to income tax obligations is to include such items as part of general and administrative expense. At May 31, 2014, the Opera does not have any uncertain tax positions. The Opera's federal income tax returns for 2011-2013 remain subject to examination by the Internal Revenue Service.

Compensated absences

Beginning June 1, 2012, the Opera changed its compensated absences policy to a "use it or lose it" policy. During the year ended May 31, 2014 the Opera paid \$5,000 to a current employee for a partial settlement of past compensated absences due. At May 31, 2014, the remaining balance of \$24,444, which is related to the Opera's general director, remains unpaid. The Opera's policy is now to recognize the costs of compensated absences when paid to employees.

Functional allocation of expenses

The costs of providing the various services the Opera offers have been summarized on a functional basis in the statement of activities. Accordingly, certain costs may have been allocated among the programs and supporting services benefited.

Subsequent events

Subsequent events have been evaluated through September 19, 2014 the date the financial statements were available to be issued in accordance with FASB ASC 855.

**NOTE 3: Certificates of deposit**

Unrestricted and restricted certificates of deposits at May 31, 2014 consist of the following:

<b>Certificate of deposit, interest rate: 0.445% original issuance</b>	
<b>date: August 16, 2013; maturities date: August 16, 2016</b>	<u>\$ 1,204,552</u>

Florida Cultural Endowment Program

The Florida Cultural Endowment Program restricted investments were established in accordance with the terms of the Trust Agreements dated November 7, 1996 and August 4, 1999, between the State of Florida and the Opera (see Note 12). Scholarship restricted investments are restricted for the first prize in the Senior Division of the annual Scholarship Competition sponsored by the Opera.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**May 31, 2014**

**NOTE 4: Beneficial interest in trusts**

Perpetual trust

The Opera is a beneficiary of an irrevocable trust created by a donor, the assets of which are held by a third-party trustee at a local financial institution. Under the terms of the agreement, the Opera is to receive the annual income from the trust in perpetuity. The interest in the trust was valued at \$282,205 at May 31, 2014 based on the fair value of the trust (see Note 5 for additional information regarding fair value) and is classified as a permanently restricted asset in the accompanying financial statements.

Remainder trust

The Opera was a 14.285% beneficiary in an irrevocable trust created by a donor, the assets of which were held by a third-party trustee at a financial institution. At May 31, 2013, the total fair value of the trust assets, applicable to the Opera, was \$655,701, and was classified as a temporarily restricted asset in the accompanying financial statements. During 2013-2014, the Opera received a full distribution from this trust for 100% of its share.

**NOTE 5: Fair value measurements**

FASB ASC 820, *Fair Value Measurement*, established a fair value hierarchy that categorizes the inputs to valuation methods, used to measure fair value, into three unique levels, they are:

Level 1 inputs – are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Opera can access at the measurement date. Level 1 inputs are given the highest precedence.

Level 2 inputs – are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. An example of a Level 2 input would be quoted prices in active markets for similar, but not identical, assets or liabilities.

Level 3 inputs – are unobservable for the asset or liability. Level 3 inputs are given the lowest precedence.

The following schedule details the fair value of the Opera's assets, by level, at May 31, 2014:

<u>Description</u>	<u>Fair Value at 5/31/14</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in trust:				
Perpetual trusts	\$ 282,205	282,205	-	-

**NOTE 6: Employee benefit plan – 403(b)**

The Opera has a 403(b) Plan ("the Plan") for the benefit of its employees. The Opera, at its discretion, may contribute up to 3% of an employee's salary to the Plan. Employees may contribute up to maximum allowable IRS limits. The amount of expense related to the Plan for the year ended May 31, 2014 was \$21,435.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2014*

**NOTE 7: Line of credit payable – Northern Trust**

On September 27, 2013, the Opera renewed its existing line of credit in the amount of \$700,000 with Northern Trust, N.A. for short term working capital. The line of credit is for a period of one year, expiring September 26, 2014 and bears a variable interest rate based upon the prime rate. At May 31, 2014, the stated prime rate was 3.25%. The line of credit is payable in monthly installments of interest only, until September 26, 2014, at which time all principal and accrued interest are payable in full. The line of credit is collateralized by the Opera's certificate of deposit account held at Northern Trust. At May 31, 2014, the outstanding balance on the line of credit is \$10,000.

**NOTE 8: Pledges receivable**

At May 31, 2014 the Opera has recorded pledges receivable in the amount of \$198,070. This amount represents signed, irrevocable amounts due from donors in future periods. In accordance with the terms of the pledge agreements, the amounts are due during the 2014 – 2015 fiscal year and accordingly have been recorded as temporarily restricted net assets until receipt of the funds at which time the funds will be released from restriction. The Opera believes the pledges are fully collectible, and therefore, has not recorded an allowance for uncollectible accounts.

The pledges receivable are due to be received as follows:

During the fiscal year ended May 31, 2015    \$     198,070

**NOTE 9: Property and equipment**

Property and equipment at May 31, 2014 consists of the following:

Equipment	\$    291,881
Leasehold improvements	192,352
Computer software	42,535
Furniture and fixtures	45,935
Costumes and scenery	<u>65,593</u>
	638,296
Less: accumulated depreciation	<u>(412,864)</u>
Net property and equipment	<u>\$    225,432</u>

Depreciation expense for the year ended May 31, 2014 was \$20,829.

**NOTE 10: Related party transactions**

During 2011-2012, the Opera sold its building and related building improvements to Opera Partners, LLC, a Florida limited liability company. A representative of one of the general partners of Opera Partners, LLC is also a member of the Opera's Board of Directors. At May 31, 2014, the Opera continues to occupy the building. All transactions appear to have been conducted in the ordinary course of business and on commercially reasonable terms.

During 2013-2014, the Opera was awarded a grant from Opera America in the amount of \$30,000. The Opera's general director is also a current member of Opera America's Board of Directors. The awarding of this grant appears to have been conducted in the ordinary course of business and on commercially reasonable terms.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2014*

**NOTE 11: Temporarily restricted net assets**

Temporarily restricted net assets consist of the following at May 31, 2014:

Grants receivable	\$ 225,479
Cash on hand – donor restricted	372,000
Pledges receivable	<u>198,070</u>
Total	<u>\$ 795,549</u>

**NOTE 12: Permanently restricted net assets**

The Opera was awarded two grants (first in 1996 and second in 1999) totaling \$480,000 from the State of Florida's Cultural Endowment Program. The grants require the Opera to deposit these funds along with \$720,000 of the Opera's funds in a pre-approved investment plan under the agreement. The Opera is entitled to use the investment income which these funds earn, but cannot invade the principal. Therefore, total permanently restricted funds related to the grants were \$1,200,000. The Opera, at the discretion of the Board of Directors, has the option, at any time, to return the \$480,000 to the State of Florida. Upon this return of capital to the State, the Opera's portion of \$720,000 would become unrestricted funds for use in operations.

In addition, the beneficial interest in perpetual trust which had a fair value of \$282,205 at May 31, 2014, is also recorded as a permanently restricted net asset (see Notes 4 and 5 for additional information).

Accordingly, assets totaling \$1,482,205 are permanently restricted at May 31, 2014.

**NOTE 13: Concentration of risk**

The Opera maintains its cash in bank at various financial institutions whereby deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At May 31, 2014, the Opera has uninsured deposits in the amount of \$1,393,020. The Opera believes that the financial institutions it uses have sufficient ratings to mitigate this risk.

During the year ended May 31, 2014, the Opera received approximately 20% of its total revenues as a Legacy Gift from one donor. To lessen the risk concentration, the Opera has broadened and diversified its donor base over the past two years, including the addition of five new Board of Directors members and 14 new Board of Governors members.