

SARASOTA OPERA ASSOCIATION, INC.

FINANCIAL STATEMENTS

MAY 31, 2017

SARASOTA OPERA ASSOCIATION, INC.
FINANCIAL STATEMENTS
MAY 31, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 – 18

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sarasota Opera Association, Inc.
Sarasota, Florida

We have audited the accompanying financial statements of the Sarasota Opera Association, Inc. (the Association), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sarasota Opera Association, Inc. as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Association's 2016 financial statements, and our report dated November 14, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Christopher, Smith, Leonard,
Bristow & Stanell, P.A.*

CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P.A.

December 20, 2017
Sarasota, Florida

SARASOTA OPERA ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
MAY 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR MAY 31, 2016)

	2017	Summarized 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 700,149	\$ 834,201
Restricted Cash and Cash Equivalents	75,000	92,850
Short-Term Investments	902,648	525,175
Other Receivables, Net	110,918	36,680
Promises to Give, Net	414,574	525,650
Deposits and Prepaid Expense	166,479	2,361,926
Total Current Assets	<u>2,369,768</u>	<u>4,376,482</u>
Property and Equipment, Net	17,918,457	12,580,990
Other Noncurrent Assets		
Restricted Cash and Cash Equivalents	27,000	27,000
Long-Term Investments	7,057,597	5,617,370
Promises to Give, Net	1,536,412	1,934,667
Total Noncurrent Assets	<u>8,621,009</u>	<u>7,579,037</u>
Total Assets	<u>\$ 28,909,234</u>	<u>\$ 24,536,509</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 146,882	\$ 146,849
Deferred Revenues	1,150,605	1,089,418
Total Current Liabilities	<u>1,297,487</u>	<u>1,236,267</u>
Long-Term Liabilities		
Mortgage Payable	1,415,000	-
Total Long-Term Liabilities	<u>1,415,000</u>	<u>-</u>
Net Assets		
Unrestricted	16,727,475	15,304,809
Temporarily Restricted	1,988,210	1,891,898
Permanently Restricted	7,481,062	6,103,535
Total Net Assets	<u>26,196,747</u>	<u>23,300,242</u>
Total Liabilities and Net Assets	<u>\$ 28,909,234</u>	<u>\$ 24,536,509</u>

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

SARASOTA OPERA ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR MAY 31, 2016)

				TOTAL	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	Summarized 2016
REVENUE AND SUPPORT					
Revenue from Operations					
Opera Productions	\$ 2,806,363	\$ -	\$ -	\$ 2,806,363	\$ 3,329,322
Sarasota Youth Opera	98,732	-	-	98,732	102,886
Interest and Dividend Income	24,395	128,551	-	152,946	178,118
Realized/Unrealized Gain	119,152	443,656	-	562,808	(261,104)
Rents	297,310	-	-	297,310	312,927
Gain (Loss) on sale of assets	(2,588)	-	-	(2,588)	(385)
Miscellaneous	142,634	-	-	142,634	290,980
Total Revenues from Operations	3,485,998	572,207	-	4,058,205	3,952,744
Support from the Public					
Contributions- General	2,871,970	2,515,476	1,377,527	6,764,973	4,594,087
Special Event Income	311,204	-	-	311,204	443,654
Grants	462,704	-	-	462,704	297,500
Total Support from the Public	3,645,878	2,515,476	1,377,527	7,538,881	5,335,241
Support from Governmental Agencies					
Federal Grant	20,000	-	-	20,000	25,000
State/County Grants	187,019	-	-	187,019	169,011
Total Support from Governmental Agencies	207,019	-	-	207,019	194,011
Net Assets Released from Restrictions	2,991,371	(2,991,371)	-	-	-
TOTAL REVENUE AND SUPPORT	10,330,266	96,312	1,377,527	11,804,105	9,481,996
EXPENDITURES					
Program and Support Services					
Program Services	6,052,409	-	-	6,052,409	7,157,961
Management and General	1,999,648	-	-	1,999,648	1,714,821
Fundraising - General	362,898	-	-	362,898	358,451
Fundraising - Special Events	306,819	-	-	306,819	396,411
Fundraising - Comprehensive Campaign	185,826	-	-	185,826	228,287
TOTAL EXPENDITURES	8,907,600	-	-	8,907,600	9,855,931
INCREASE IN NET ASSETS	1,422,666	96,312	1,377,527	2,896,505	(373,935)
NET ASSETS, BEGINNING OF YEAR	15,304,809	1,891,898	6,103,535	23,300,242	23,674,177
NET ASSETS, END OF YEAR	\$ 16,727,475	\$ 1,988,210	\$ 7,481,062	\$ 26,196,747	\$ 23,300,242

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

SARASOTA OPERA ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR MAY 31, 2016)

	2017	Summarized 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 2,896,505	\$ (373,935)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	580,830	502,467
Bad debt expense	14,033	223
Unrealized (gain) loss on investments	(562,808)	261,104
(Gain) loss on disposals of assets	2,588	385
(Increase) decrease in:		
Other receivables	(88,271)	14,921
Promises to give	509,331	(667,970)
Deposits and prepaid expenses	2,195,447	(2,274,249)
Increase (decrease) in:		
Accounts payable and accrued expenses	33	42,312
Deferred revenues	61,187	(84,463)
Contributions restricted for long-term purposes:		
Permanently restricted	(1,377,527)	(281,580)
Total Cash Provided (Used) by Operating Activities	<u>4,231,348</u>	<u>(2,860,785)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,923,485)	(57,113)
Net (purchases) sales of marketable securities	(1,254,892)	257,755
Proceeds from sale of assets	2,600	-
Total Cash Provided (Used) by Investing Activities	<u>(7,175,777)</u>	<u>200,642</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings from long-term debt	1,415,000	-
Contributions restricted for long-term purposes:		
Permanently restricted	1,377,527	281,580
Total Cash Provided by Financing Activities	<u>2,792,527</u>	<u>281,580</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(151,902)	(2,378,563)
CASH AND CASH EQUIVALENTS – Beginning of year	<u>954,051</u>	<u>3,332,614</u>
CASH AND CASH EQUIVALENTS – End of year	<u><u>\$ 802,149</u></u>	<u><u>\$ 954,051</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash and cash equivalents consisted of the following:		
Current cash and cash equivalents – unrestricted	\$ 700,149	\$ 834,201
Current cash and cash equivalents – restricted	75,000	92,850
Noncurrent cash and cash equivalents – restricted	27,000	27,000
	<u><u>\$ 802,149</u></u>	<u><u>\$ 954,051</u></u>
Interest Paid	<u><u>\$ 31,489</u></u>	<u><u>\$ 9,415</u></u>

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

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Organizations

Sarasota Opera Association, Inc. (the Opera) is a not-for-profit corporation and was formed under the laws of the State of Florida as the Asolo Opera Guild, Inc. (the Guild) on April 28, 1961. The Guild changed its name to Sarasota Opera Association, Inc. on January 31, 1983.

The Association's mission is to produce outstanding opera, true to the vision of the composer, to entertain, enrich, and educate the communities in southwest Florida as well as patrons from across the state and around the world. The objectives of the Association are to produce such operas; and to foster, promote and increase public knowledge and appreciation of opera and similar presentations; to instruct, train and educate both students and the public, generally, in opera, music and related performing arts; and to rent, acquire for use, or own, maintain, and operate a place or places to accomplish these objectives.

The Association has two affiliates: the Sarasota Opera Guild and the Bradenton Opera Guild, whose purposes are to raise funds to support the Association. The unrestricted net assets also include activities of the Sarasota Youth Opera.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting.

Financial Statement Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – net assets that are not subject to donor-imposed restrictions including the carrying amount of physical properties (land, facilities and equipment). Items that increase or decrease this net asset category include revenue and support, which includes ticket sales, contributions and investment income unless donor restricted, and all expenses of the Association. Unrestricted net assets can include those net assets designated or set aside by the Board for internally designated uses.

The use of certain funds are designated by the Board of Directors for specific use and consist of cash deposits and pledges. At May 31, 2017, net assets designated by the Board for internally designated uses totaled \$454,542.

Designated funds remain under the control of the Board of Directors, which may, with appropriate Board action, modify the use of such funds. As such, these funds are included in unrestricted net assets in the statement of financial position.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Statement Presentation – Continued

Temporarily Restricted Net Assets – net assets subject to donor-imposed restrictions which may be met either by actions of the Association or the passage of time. Items that increase this net asset category are gifts for which the donor-imposed restrictions have not been met and accumulated income on permanently restricted net assets whose earnings have specific donor-imposed restriction as to use.

Permanently Restricted Net Assets – net assets subject to donor-imposed restrictions stipulating the corpus be held in perpetuity.

Contributions and Recognition of Donor Restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Certain memberships are recorded as contributions in the year received (unrestricted) or receivable (temporarily restricted).

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid instruments with original maturities of three months or less.

Restricted cash and cash equivalents are limited in use to payment of costs of renovating and operating the opera house, purchase of future buildings and facilities, costs associated with certain future productions, and amounts due to the endowment fund. Restricted cash and cash equivalents consists of \$75,000 of temporarily restricted cash deposits and \$27,000 of permanently restricted cash deposits as of May 31, 2017.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investment earnings including realized and unrealized gains and losses net of fees are included in the statement of activities. Gains or losses are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or law.

FASB ASC Topic 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments – Continued

The three levels of the fair value hierarchy are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Other Receivables

Other receivables consist of grants receivable and receivables related to program book sales. The receivables are recorded at the value of the revenue earned and are due based on the terms of the agreement. Other receivables are stated at the amount management expects to collect on outstanding balances. The Association uses the allowance method to determine uncollectible receivables. Management deems all of the grants receivable at May 31, 2017 to be fully collectible. An allowance for doubtful accounts for receivables related to program book sales at May 31, 2017 was not material.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received which was calculated at 3.00%. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Association uses the allowance method to determine uncollectible promises to give. The allowance is based on historical experience and currently known facts and circumstances of specific promises made (see Note 10).

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. During fiscal 2017, acquisitions of property and equipment in excess of \$325 were capitalized. Land, buildings and equipment are stated at cost and donated assets are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions at the time the costs are incurred to place the asset in service.

The Association's accumulated cost of sets capitalized at May 31, 2017 is \$276,300 and all amounts are fully depreciated. It is the intention of the Association that these sets will be rented out or re-used in the future.

Deferred Revenue

Ticket sales received prior to the fiscal year to which they apply are not recognized as revenues until the year earned.

Expense Allocation

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

Reclassification

Certain prior year amounts have been reclassified to conform to the presentation in 2017. The reclassification had no effect on previously reported changes in or total net assets as of May 31, 2016.

Income Tax Status

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Income from certain activities not directly related to the Association's tax-exempt purposes is subject to taxation as unrelated business income. In addition, contributions to the Association qualify for the charitable contribution deduction under Section 170(b)(1)(A). Management believes the Association has no material unrecognized income tax benefits, including any potential loss of their tax exempt status. The Association has no ongoing federal, state or local tax audits; however, the Association's tax returns for the previous three fiscal years remain open to examination.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Association expenses advertising costs as incurred. Advertising costs for the year ended May 31, 2017 were \$237,671.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended May 31, 2016, from which the summarized information was derived.

NOTE 2- ASSETS MEASURED AT FAIR VALUE

Marketable securities with readily determinable fair values are presented in the financial statements at fair market value. Marketable securities are composed of the following at May 31, 2017:

	<u>Cost</u>	<u>Market</u>
Money Market Funds	\$ 458,176	\$ 458,176
Exchange Traded Funds	742,441	782,222
Fixed Income Bonds	2,072,753	2,068,416
Bond Funds	305,548	307,659
Mutual Funds	1,427,394	1,472,746
Equity Securities	<u>2,801,791</u>	<u>2,871,026</u>
Total	<u>\$ 7,808,103</u>	<u>\$ 7,960,245</u>

The net earnings on marketable securities reported for 2017 were:

Interest and Dividends	\$ 152,946
Net Realized/Unrealized Gains (Losses)	<u>562,808</u>
	<u>\$ 715,754</u>

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 2- ASSETS MEASURED AT FAIR VALUE - CONTINUED

The Association measured, on a recurring basis, at fair value the following assets at May 31, 2017:

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Common Stock				
Consumer staples	\$ 254,024	\$ -0-	\$ -0-	\$ 254,024
Industrials	244,178	-0-	-0-	244,178
Healthcare	483,890	-0-	-0-	483,890
Consumer discretionary	354,220	-0-	-0-	354,220
Energy	141,184	-0-	-0-	141,184
Financial services	398,160	-0-	-0-	398,160
Technology	716,238	-0-	-0-	716,238
Materials	77,339	-0-	-0-	77,339
Other	23,919	-0-	-0-	23,919
Utilities	57,777	-0-	-0-	57,777
Communications	21,383	-0-	-0-	21,383
Real estate	<u>98,714</u>	<u>-0-</u>	<u>-0-</u>	<u>98,714</u>
	2,871,026	-0-	-0-	2,871,026
Fixed Income Bonds				
Corporate bonds	-0-	323,109	-0-	323,109
Government bonds				
AAA credit rating	<u>-0-</u>	<u>1,745,307</u>	<u>-0-</u>	<u>1,745,307</u>
	-0-	2,068,416	-0-	2,068,416
Money Market Funds	<u>169,060</u>	<u>289,116</u>	<u>-0-</u>	<u>458,176</u>
	169,060	289,116	-0-	458,176
Bond Funds				
Blend fund	<u>-0-</u>	<u>307,659</u>	<u>-0-</u>	<u>307,659</u>
	-0-	307,659	-0-	307,659
Exchange Traded Funds				
Blend fund	223,994	-0-	-0-	223,994
Growth fund	216,503	-0-	-0-	216,503
Value fund	222,692	-0-	-0-	222,692
Pref stock/taxable bond	<u>119,033</u>	<u>-0-</u>	<u>-0-</u>	<u>119,033</u>
	782,222	-0-	-0-	782,222
Mutual Funds				
Blend fund	-0-	382,362	-0-	382,362
World large stock	488,906	-0-	-0-	488,906
Growth fund	296,416	-0-	-0-	296,416
Value fund	152,892	-0-	-0-	152,892
Foreign large blend	<u>152,170</u>	<u>-0-</u>	<u>-0-</u>	<u>152,170</u>
	<u>1,090,384</u>	<u>382,362</u>	<u>-0-</u>	<u>1,472,746</u>
Total Assets	<u>\$ 4,912,692</u>	<u>\$ 3,047,553</u>	<u>\$ -0-</u>	<u>\$ 7,960,245</u>

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 2- ASSETS MEASURED AT FAIR VALUE - CONTINUED

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2017.

Common stock is valued at quoted market prices in an actively traded market in which the security is traded.

The money market fund is valued at amortized cost, which approximates fair market value. The money market fund seeks to preserve a net asset value (NAV) of \$1 per share. Under the amortized cost method, the portfolio instrument is initially valued at cost, and thereafter assumes the constant accretion/amortization to maturity date, or next reset date of any discount or premium. While amortized cost provides certainty in valuation, it may result in periods when the value of an instrument is higher or lower than a price the Association would receive if it sold the instrument.

Mutual funds and exchange traded funds are valued at net asset value of shares held at year end. These funds may also be valued as determined by an independent pricing service, based on methods which include consideration of: yields or prices of securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions.

Fixed income bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at reporting date.

NOTE 3- PROPERTY AND EQUIPMENT

The balances of the major classes of property and equipment are as follows as of May 31, 2017:

Land	\$ 464,466
Buildings	22,934,545
Office equipment, furniture and fixtures	851,620
Theater equipment	<u>2,604,256</u>
	26,854,887
Accumulated depreciation	<u>(8,936,430)</u>
	<u>\$ 17,918,457</u>

Depreciation expense for year ended May 31, 2017 is \$580,830.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 4- ADVANCE COLLECTIONS OF TICKET SALES

Included in deferred revenues at May 31, 2017 is \$1,042,253 received on advance ticket sales for the upcoming season. As each production is presented, the portion of the advance sales that pertains to that production will be recognized as revenue.

NOTE 5- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the Association's renovation of the Opera House, purchase of future buildings and facilities, and costs of certain future productions, as well as donor restrictions on current year contributions not spent.

Temporarily restricted net assets are available for the following purposes at May 31, 2017:

<u>Account</u>	<u>Purpose</u>	
Cash & Cash Equivalents	Capital Improvements	\$ 75,000
Other Receivables, net	Various - operating	50,000
Marketable Securities	Various - operating	487,268
Marketable Securities	Capital Improvements	166,320
Pledges	Various/Future Productions	988,137
Pledges	Capital Improvements	<u>221,485</u>
Total		<u>\$ 1,988,210</u>

NOTE 6- ENDOWMENT FUNDS

The Association has two endowment funds: a State Matching Endowment Fund and a General Endowment Fund. The State Matching Endowment Fund is separated to ensure that its investments comply with allowed investments under a state endowment matching program. Earnings from the State Matching Endowment Fund are available for operations of the Association. The current state matching requires this endowment fund maintain a \$1,560,000 minimum investment. The primary goal in the management of this restricted endowment fund (as required under the State of Florida's Cultural Endowment Program trust agreement) is preservation of a minimum market value of \$1,560,000, while maximizing current income through the use of investment quality financial instruments.

The General Endowment Fund contains other assets of the Association that are to be invested to provide income to support operations and achieve growth of principal modestly greater than inflation. This endowment contains those assets that are permanently restricted by an original donor gift, and other assets whether temporarily restricted or unrestricted, that the Association has identified as available for long-term investment. Investments will be managed for "total return" to provide, in addition to current income for operations, growth of principal modestly greater than inflation. Income and appreciation on the invested funds are available to support current operations and new initiatives as recommended by the Finance Committee and approved by the Board of Trustees.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 6- ENDOWMENT FUNDS- CONTINUED

Both endowment funds are managed by outside investment managers, whose performance is reviewed by the investment committee, subject to the direction and oversight by the Board. Investment policies and guidelines provide for asset allocation and performance objectives, and impose various restrictions and limitations on the managers. The risk of invested funds must be limited in such a manner as to preserve the corpus of the donated funds.

Securities of any one issuer cannot exceed 10% of the asset class market value in the fund, nor can investments in any one sector (as defined by the S&P 500 Index) exceed the greater of 20% of the market value in the fund or 150% of the sector weighting in the index.

The Board reviews its policy annually by considering the Endowment Fund's short and long-term financial objectives, and determining a range of projected investment values that would align with those objectives. The Board monitors the impact of actual market trends during the year.

The Association employs a spending policy intended to balance the trade-off between preserving the purchasing power of assets and providing a stable flow of resources for current operations. The spending rule adopted by the Board of Trustees uses a long-term spending rate of 3% to 6% of the average total market value of invested assets over a three year trailing period, provided that donor restrictions in force at the time of withdrawal are not violated. Only funds in excess of the endowment corpus are available for withdrawal. No distributions are made from earnings on permanently restricted funds unless earnings are sufficient to support the distribution. The endowment funds allow the withdrawal of unrestricted funds and temporarily restricted funds when needed.

Accounting Standards Codification (ASC) 958-205, *Reporting Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (FUPMIFA) effective July 1, 2012. The following disclosures are made in accordance with ASC 958-205 and the Board's interpretation of enacted law at May 31, 2017.

The Board of Trustees has interpreted the FUPMIFA as requiring the presentation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classified as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 6- ENDOWMENT FUNDS- CONTINUED

Any remaining portions of the donor-restricted endowment fund that are not classified as permanently restricted net assets are classified as unrestricted or temporarily restricted net assets based on the donor direction and the Board's current interpretation of FUPMIFA, as applicable.

The Association's endowment funds consisted of the following:

	Fund Value as of May 31, 2017			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
State Matching General	\$ 1,712,399	\$ 152,399	\$ -0-	\$ 1,560,000
Endowment	6,189,646	38,461	653,588	5,497,597
Board Designated	58,200	58,200	-0-	-0-
Total General	<u>6,247,846</u>	<u>96,661</u>	<u>653,588</u>	<u>5,497,597</u>
Total at May 31, 2017	<u>\$ 7,960,245</u>	<u>\$ 249,060</u>	<u>\$ 653,588</u>	<u>\$ 7,057,597</u>

Changes in endowment net assets:

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net Assets at May 31, 2016	\$ 6,142,545	\$ 196,294	\$ 328,881	\$ 5,617,370
Appropriation of assets for expenditure	(297,500)	(50,000)	(247,500)	-0-
Deposits	1,440,227	-0-	-0-	1,440,227
Investment income	151,640	23,089	128,551	-0-
Net appreciation	<u>523,333</u>	<u>79,677</u>	<u>443,656</u>	<u>-0-</u>
Net Assets at May 31, 2017	<u>\$ 7,960,245</u>	<u>\$ 249,060</u>	<u>\$ 653,588</u>	<u>\$ 7,057,597</u>

NOTE 7- PERMANENTLY RESTRICTED FUNDS

Permanently restricted net assets at May 31, 2017 include the amounts shown below. Earnings from these net assets are restricted for the purposes shown.

<u>Account</u>	<u>Earnings Restricted</u>	
Youth Opera	Youth Opera Programs	\$ 35,000
Apprentice Program	Apprentice Scholarships	559,501
State Matching Endowment	General Operations	1,560,000
Library	General Operations	1,050,000
Operating Endowments	General Operations	2,624,472
Comprehensive Campaign	General Operations	289,000
Capital Improvements	Capital Improvements	1,044,692
Artistic / Production	Artistic / Production Awards	182,397
Staff Incentive Program	Staff Incentive Award	100,000
Opera Guilds	Guild Direction	<u>36,000</u>
		<u>\$ 7,481,062</u>

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 7- PERMANENTLY RESTRICTED FUNDS – CONTINUED

The market value of assets associated with donor restricted endowment funds may fall below the level the donors require to retain funds of perpetual duration. These deficiencies are reported as a reduction of unrestricted assets. These deficiencies result from temporary market fluctuations.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Association sponsors a salary reduction contribution plan pursuant to section 403(b) of the Internal Revenue Code, covering substantially all nonunion employees. Under the plan, employees contribute a specified percentage of their salary, or a fixed amount, to the plan. The Association may agree to make discretionary matching contributions equal to a uniform percentage, except matching contributions shall not exceed \$500 annually, and shall be deemed an employer non-elective contribution. Contributions to fund plan administrative expenses totaling \$3,721 for the year ended May 31, 2017 were made by the Association in addition to the elective deferrals made by employees.

NOTE 9 – COMPREHENSIVE CAMPAIGN

Launched softly in June 2014, the goal of the multi-year comprehensive campaign is to raise \$45 million. \$12 million of the goal is allocated to increasing annual fund revenue. \$10 million is allocated to funding future capital projects including the purchase of artist housing. \$15 million of the goal is allocated to increasing endowment fund revenues. \$8 million of the goal is allocated to provide supplemental operational funding while growing the endowment fund.

As of May 31, 2017, \$2,007,008 of the original pledges for the campaign remains to be collected.

NOTE 10- PROMISES TO GIVE

The Association has outstanding unconditional promises to give as follows:

	May 31, 2017		
	Current	Noncurrent (1-5 Years)	Total
Co-Producer and Other Gifts	\$ 163,855	\$ 97,484	\$ 261,339
Comprehensive Campaign	330,186	1,676,822	2,007,008
Allowance for Doubtful Accounts	(79,467)	(180,843)	(260,310)
Unamortized Discount	-0-	(57,051)	(57,051)
Balance Due, May 31, 2017	<u>\$ 414,574</u>	<u>\$ 1,536,412</u>	<u>\$ 1,950,986</u>

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 10- PROMISES TO GIVE – CONTINUED

The Association evaluates the collectability of its pledges receivable annually. Management believes the allowance for doubtful accounts displayed above are adequate. Unconditional promises to give due in more than one year are reflected at net present value by discounting the estimated future cash flows. The effective interest rate used to discount unconditional promises for the year ended May 31, 2017 was 3%.

Because of the inherent uncertainties in estimating the allowance for doubtful accounts and the present value discount, it is at least reasonably possible that the estimates used will change within the near term.

NOTE 11- CONCENTRATION OF CREDIT AND OTHER RISKS

Financial instruments that potentially subject the Association to credit risk consist of cash and cash equivalents, promises to give (see Note 10), and marketable securities and investments.

Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At times throughout the year, the Association's cash balances may exceed insured limits. Management believes that it is not exposed to any significant credit risk on cash and cash equivalents.

The Association holds various investments in securities which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The Association employs certain labor forces subject to a collective bargaining agreement with a union. The existing agreement expired May 31, 2017. The Association entered a new agreement that will expire May 31, 2020 and covers all stagehands or approximately 25% of the Association's employed labor force.

NOTE 12- LINE OF CREDIT

During 2017, the Association entered into a line of credit with a financial institution for \$1,000,000. The line matures February 5, 2018. The line of credit bears interest at 0.500 percentage points over the Wall Street Journal Prime rate. This loan is secured by the general assets of the Association, excluding endowment-restricted assets. Under the terms of the agreement, the Association must maintain certain covenants. The Association believes it is in compliance with such covenants. The Association had no funds drawn on the line as of May 31, 2017.

SARASOTA OPERA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2017

NOTE 13- MORTGAGE PAYABLE

During 2017, the Association entered into a mortgage note with a financial institution for up to \$2,700,000. The loan matures in March 2023. The note is interest only for the first 18 months, and then requires principal and interest payments. The note bears interest at 4.25% fixed for the first three years of the note, and then adjusts to the prevailing three year Treasury security index plus 3.25 percentage points, with a floor of 4.25%. The payments will be based on the outstanding balance after the first 18 months amortized over 20 years. At maturity, any unpaid principal will be due in full. The note is secured by 30 condominium units, known as Steinwachs Artist Residences, owned by the Association and used for visiting artists. The carrying amount of condominiums at May 31, 2017 was \$5,242,186. The balance outstanding on the note at May 31, 2017 was \$1,415,000. Future maturities of long-term debt are as follows:

<u>Year Ending May 31:</u>	
2018	\$ -0-
2019	30,380
2020	47,212
2021	49,258
2022	51,393
Thereafter	<u>1,236,757</u>
	<u>\$ 1,415,000</u>

NOTE 14- OPERATING LEASES

The Association leases office space, warehouse facilities and equipment under operating leases. Management expects that leases will be renewed or replaced by other leases in the normal course of business. The following is a schedule by year of future minimum lease payments that have remaining non-cancelable terms in excess of one year as of May 31, 2017:

<u>For the years ending</u>	
May 31, 2018	\$ 171,969
May 31, 2019	63,680
May 31, 2020	62,261
May 31, 2021	62,261
May 31, 2022	62,261
Thereafter	<u>249,044</u>
Total minimum operating lease payments	<u>\$ 671,476</u>

Total rental expense under operating leases for 2017 was \$310,372.

NOTE 15- SUBSEQUENT EVENTS

The Association has evaluated subsequent events through December 20, 2017, which is the date the financial statements were available to be issued.