

SARASOTA OPERA ASSOCIATION, INC.

FINANCIAL REPORT

MAY 31, 2020

SARASOTA OPERA ASSOCIATION, INC.

**FINANCIAL REPORT
MAY 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Sarasota Opera Association, Inc. (a non-profit organization), (the "Opera"), which comprise the statement of financial position as of May 31, 2020, and the related statements of activities, functional expenses 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, 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, 2020, 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 Sarasota Opera Association, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bradenton, Florida
November 15, 2020

Mauldin & Jenkins, LLC

SARASOTA OPERA ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

MAY 31, 2020

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF MAY 31, 2019)

| ASSETS | 2020 | 2019 |
|---|----------------------|----------------------|
| Current assets | | |
| Cash | \$ 682,958 | \$ 319,203 |
| Accounts receivable | 10,046 | 27,279 |
| Promises to give | 639,807 | 687,327 |
| Prepaid expenses and other assets | 170,366 | 115,620 |
| | <u>1,503,177</u> | <u>1,149,429</u> |
| Property and equipment, net | <u>17,285,099</u> | <u>16,682,254</u> |
| Noncurrent assets | | |
| Investments | 8,066,100 | 8,547,272 |
| Promises to give | 34,544 | 131,702 |
| | <u>8,100,644</u> | <u>8,678,974</u> |
| TOTAL ASSETS | <u>\$ 26,888,920</u> | <u>\$ 26,510,657</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 580,275 | \$ 169,107 |
| Accrued expenses | 254,870 | 98,897 |
| Deferred revenue | 938,371 | 1,066,743 |
| Line of credit | 1,000,000 | 400,000 |
| Current maturities of loans payable | 583,454 | 69,444 |
| | <u>3,356,970</u> | <u>1,804,191</u> |
| Loans payable, less current maturities | <u>1,230,555</u> | <u>1,301,033</u> |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 14,143,389 | 14,563,235 |
| Designated by the Board for endowment | 41,986 | 62,586 |
| With donor restrictions | | |
| Time or purpose | 379,898 | 1,055,539 |
| Perpetual | 7,736,122 | 7,724,073 |
| TOTAL NET ASSETS | <u>22,301,395</u> | <u>23,405,433</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 26,888,920</u> | <u>\$ 26,510,657</u> |

See Notes to Financial Statements.

SARASOTA OPERA ASSOCIATION, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED MAY 31, 2019)**

| | Without Donor Restrictions | With Donor Restrictions Time and Purpose | With Donor Restrictions Perpetual | Total | Total 2019 |
|--|-------------------------------|--|---|----------------------|----------------------|
| Revenue from operations | | | | | |
| Opera productions | \$ 2,431,955 | \$ - | \$ - | \$ 2,431,955 | \$ 3,023,161 |
| Sarasota youth opera | 69,281 | - | - | 69,281 | 92,273 |
| Interest and dividends | 45,435 | 77,053 | - | 122,488 | 148,675 |
| Realized and unrealized gains on investments | 48,163 | 362,120 | - | 410,283 | 12,403 |
| Rents | 320,848 | - | - | 320,848 | 403,640 |
| Loss on sale of assets | (9,047) | - | - | (9,047) | (1,677) |
| Other | 199,948 | - | - | 199,948 | 289,431 |
| Total revenue from operations | <u>3,106,583</u> | <u>439,173</u> | <u>-</u> | <u>3,545,756</u> | <u>3,967,906</u> |
| Support from the public | | | | | |
| Contributions | 3,802,469 | - | 12,049 | 3,814,518 | 3,638,498 |
| Special event income | 346,109 | - | - | 346,109 | 344,068 |
| Grants | 704,635 | - | - | 704,635 | 196,830 |
| Total support from the public | <u>4,853,213</u> | <u>-</u> | <u>12,049</u> | <u>4,865,262</u> | <u>4,179,396</u> |
| Support from governmental agencies | | | | | |
| Federal grants | 20,000 | - | - | 20,000 | 20,000 |
| State grants | 43,768 | - | - | 43,768 | 9,709 |
| County grants | 91,380 | - | - | 91,380 | 92,701 |
| Total support from governmental agencies | <u>155,148</u> | <u>-</u> | <u>-</u> | <u>155,148</u> | <u>122,410</u> |
| Net assets released from restrictions | <u>1,114,814</u> | <u>(1,114,814)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>9,229,758</u> | <u>(675,641)</u> | <u>12,049</u> | <u>8,566,166</u> | <u>8,269,712</u> |
| Functional expenses | | | | | |
| Program services | | | | | |
| Opera programs | 6,751,453 | - | - | 6,751,453 | 6,687,516 |
| Education and youth opera | 392,326 | - | - | 392,326 | 422,993 |
| Total program expenses | <u>7,143,779</u> | <u>-</u> | <u>-</u> | <u>7,143,779</u> | <u>7,110,509</u> |
| Support services | | | | | |
| General and administrative | 1,629,896 | - | - | 1,629,896 | 1,614,405 |
| Fundraising | 896,529 | - | - | 896,529 | 911,768 |
| Total support services | <u>2,526,425</u> | <u>-</u> | <u>-</u> | <u>2,526,425</u> | <u>2,526,173</u> |
| Total functional expenses | <u>9,670,204</u> | <u>-</u> | <u>-</u> | <u>9,670,204</u> | <u>9,636,682</u> |
| Decrease in net assets | <u>(440,446)</u> | <u>(675,641)</u> | <u>12,049</u> | <u>(1,104,038)</u> | <u>(1,366,970)</u> |
| Net assets, beginning of year | <u>14,625,821</u> | <u>1,055,539</u> | <u>7,724,073</u> | <u>23,405,433</u> | <u>24,772,403</u> |
| Net assets, end of year | <u>\$ 14,185,375</u> | <u>\$ 379,898</u> | <u>\$ 7,736,122</u> | <u>\$ 22,301,395</u> | <u>\$ 23,405,433</u> |

See Notes to Financial Statements.

SARASOTA OPERA ASSOCIATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED MAY 31, 2019)**

| | Opera Programs | Education and Youth Opera | Total Program Services | General and Administrative | Fundraising | Total Expenses | Total 2019 |
|-------------------------------------|----------------|---------------------------|------------------------|----------------------------|-------------|----------------|--------------|
| Production labor | | | | | | | |
| Salaries and wages | \$ 958,875 | \$ 129,387 | \$ 1,088,262 | \$ 1,005,564 | \$ 327,373 | \$ 2,421,199 | \$ 2,344,976 |
| Contracted services | 2,392,868 | 63,435 | 2,456,303 | 50 | 5,660 | 2,462,013 | 2,509,254 |
| Payroll taxes | 86,314 | 11,162 | 97,476 | 61,274 | 23,759 | 182,509 | 177,643 |
| Employee benefits | 229,914 | 23,487 | 253,401 | 103,563 | 45,154 | 402,118 | 318,608 |
| Travel and related housing | 577,764 | 5,737 | 583,501 | 55 | 507 | 584,063 | 586,451 |
| Owned housing | 213,364 | - | 213,364 | - | - | 213,364 | 214,498 |
| Total production labor | 4,459,099 | 233,208 | 4,692,307 | 1,170,506 | 402,453 | 6,265,266 | 6,151,430 |
| Production materials | | | | | | | |
| Sets and scenery | 242,752 | 1,694 | 244,446 | - | - | 244,446 | 283,057 |
| Costuming | 192,057 | 4,413 | 196,470 | - | - | 196,470 | 143,141 |
| Music | 18,237 | 6,137 | 24,374 | - | - | 24,374 | 113,875 |
| Total production materials | 453,046 | 12,244 | 465,290 | - | - | 465,290 | 540,073 |
| General | | | | | | | |
| Marketing and advertising | 306,047 | 48,212 | 354,259 | - | - | 354,259 | 392,716 |
| Legal fees | - | - | - | 12,905 | 991 | 13,896 | 12,350 |
| Accounting fees | - | - | - | 20,000 | - | 20,000 | 27,685 |
| Credit card fees | - | - | - | 100,053 | 7,000 | 107,053 | 109,658 |
| Depreciation | 810,213 | - | 810,213 | 6,535 | - | 816,748 | 692,074 |
| Office expense | 10,083 | 1,873 | 11,956 | 28,924 | 6,682 | 47,562 | 68,467 |
| Information technology | 1,661 | - | 1,661 | 109,882 | 1,278 | 112,821 | 128,412 |
| Facilities | 556,040 | - | 556,040 | 67,845 | - | 623,885 | 619,172 |
| Insurance | 122,037 | - | 122,037 | 3,010 | - | 125,047 | 131,514 |
| Memberships, dues and subscriptions | - | - | - | 18,320 | - | 18,320 | 15,514 |
| Conferences and meetings | 22,848 | - | 22,848 | 1,380 | 400 | 24,628 | 32,705 |
| Interest expense | - | - | - | 41,326 | 58,872 | 100,198 | 82,522 |
| Scholarships | - | 3,500 | 3,500 | - | - | 3,500 | 6,500 |
| Other general and administrative | - | - | - | 49,210 | - | 49,210 | 50,263 |
| Fundraising events and activities | - | - | - | - | 279,003 | 279,003 | 245,862 |
| Bad debt expense | - | - | - | - | 16,384 | 16,384 | 48,989 |
| Other fundraising | - | - | - | - | 1,912 | 1,912 | 1,896 |
| Other program expense | 10,379 | 93,289 | 103,668 | - | - | 103,668 | 15,106 |
| Guilds | - | - | - | - | 121,554 | 121,554 | 136,252 |
| Total general | 1,839,308 | 146,874 | 1,986,182 | 459,390 | 494,076 | 2,939,648 | 2,945,179 |
| Total expenses | \$ 6,751,453 | \$ 392,326 | \$ 7,143,779 | \$ 1,629,896 | \$ 896,529 | \$ 9,670,204 | \$ 9,636,682 |

See Notes to Financial Statements.

SARASOTA OPERA ASSOCIATION, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MAY 31, 2020 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED MAY 31, 2019)

| | 2020 | 2019 |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Decrease in net assets | \$ (1,104,038) | \$ (1,366,970) |
| Adjustments to reconcile decrease in net assets to net cash (used in) operating activities | | |
| Depreciation | 816,748 | 692,074 |
| Bad debt expense | 16,384 | 48,989 |
| Realized and unrealized gain on investments | (410,283) | (12,403) |
| Contributions restricted for endowment | (12,049) | (175,477) |
| Loss on disposal of property and equipment | 9,047 | 1,677 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 17,233 | 76,670 |
| Promises to give | 128,294 | 555,764 |
| Prepaid expenses and other assets | (54,746) | 64,128 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 567,141 | 67,603 |
| Deferred revenue | (128,372) | 25,662 |
| Net cash (used in) operating activities | (154,641) | (22,283) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,428,640) | (146,783) |
| Proceeds from the sale of investments | 9,633,784 | 9,426,200 |
| Purchases of investments | (8,742,329) | (9,507,995) |
| Net cash (used in) investing activities | (537,185) | (228,578) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on long-term debt | (67,468) | (44,523) |
| Proceeds from long-term debt | 511,000 | - |
| Proceeds from line of credit | 600,000 | 304,132 |
| Proceeds from contributions restricted for endowment | 12,049 | 175,477 |
| Net cash provided by financing activities | 1,055,581 | 435,086 |
| Net increase in cash | 363,755 | 184,225 |
| Cash, beginning of year | 319,203 | 134,978 |
| Cash, end of year | \$ 682,958 | \$ 319,203 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash payments for interest | \$ 100,198 | \$ 82,522 |

See Notes to Financial Statements.

SARASOTA OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS MAY 31, 2020

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sarasota Opera Association, Inc. (the "Opera") is a not-for-profit organization that was founded in 1961 as the Asolo Opera Guild, Inc. and in 1983 changed its name to Sarasota Opera Association, Inc. The Opera'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 Opera 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 Opera also has two affiliates: the Sarasota Opera Guild and the Manatee Opera Guild, whose purposes are to raise funds to support the Opera. Net assets without donor restrictions also include activities of the Sarasota Youth Opera.

Significant accounting policies are as follows:

Basis of Accounting

The financial statements of the Opera have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Accordingly, net assets are reported in each of the following two classes: (1) net assets without donor restrictions, and (2) net assets with donor restrictions.

Net assets with donor restrictions are created only by donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that will be met either by actions of the Opera and/or the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

All other net assets, including Board-designated or appropriated amounts, are not subject to donor-imposed stipulations and are reported as part of net assets without donor restrictions.

From time to time the Board designates certain recurring and/or non-recurring items for use on specific future projects. At May 31, 2020, net assets designated by the Board for future uses totaled \$41,986 for endowment.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Management Estimates

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

Accounts Receivable

Accounts receivable consist of grants receivable and other receivables. Accounts receivable are recorded at their net realizable value and are based on services performed prior to year-end, but not collected as of the statement of financial position date. Management considers all such amounts to be fully collectible. The Opera uses the allowance method to account for uncollectible accounts receivable. As of May 31, 2020, all receivables are considered fully collectible.

Cash and Cash Equivalents

The Opera considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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

Contributions

Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met, and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as net assets without donor restrictions.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment acquisitions in excess of \$1,000 are recorded at cost, estimated cost, or if donated, at fair value on the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and improvements | 5-50 |
| Furniture, fixtures and equipment | 3-10 |
| Theater equipment | 5-10 |

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized.

Functional Allocation of Expenses

The costs of providing various programs and other activities and the administration of the Opera have been summarized on a functional basis in the statement of activities. Salaries and other expenses which are associated with a specific program are charged directly to that program. Administrative and general expenses and other expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Increases and decreases in fair value are recognized in the period in which they occur and the carrying values of the investments are adjusted to reflect these fluctuations. Cash and cash equivalents designated for long-term purposes are classified as investments. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

The Opera invests in a variety of investment vehicles, as described in Note 5. These investment securities are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is reasonably possible that these factors will result in changes in the value of the Opera's investments, which could materially affect amounts reported in the financial statements.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Opera qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly is exempt from federal income taxes under Internal Revenue Code Section 501(a). However, the Opera is subject to income tax on unrelated business income. For the year ended May 31, 2020, the Opera incurred no income tax expense.

It is the Opera's policy to account for any uncertainties in income tax law in accordance with FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes*. ASC 740-10 clarifies the accounting for uncertain income tax positions and requires that the Opera recognize the impact of such a tax position in its financial statements if, upon ultimate settlement, that position is more-likely-than-not to be sustained. Management has evaluated the Opera's tax positions and concluded that the Opera has maintained its tax-exempt status and has taken no uncertain tax positions that require adjustment to the financial statements. As a result, no provision or liability for income taxes has been included in the financial statements. The Opera files a 990 Return of Organization Exempt from Income Tax.

Fair Value of Financial Instruments

The Opera has adopted FASB's fair value measurement and disclosure guidance, which provides a framework for measuring fair value under generally accepted accounting principles. This guidance applies to all financial instruments that are being measured and reported on a fair value basis.

Advertising

The Opera expenses advertising and promotion costs in the period incurred. For the year ended May 31, 2020, advertising costs totaled \$245,264.

Deferred Revenue

Revenue from ticket sales received in advance is reported as deferred revenue and is recognized in the year in which the performance is given.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Financial Information for 2019

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Opera's financial statements as of and for the year ended May 31, 2019, from which the summarized information was derived.

Recently Issued and Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. This ASU's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the organization expects to be entitled in exchange for those goods or services.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or contributions.

The Opera adopted the new guidance in ASU No. 2014-09 and ASU No. 2018-08 as of June 1, 2019, without any changes to the way revenue is recognized.

Subsequent Events

The Opera has evaluated subsequent events through November 15, 2020, the date which the financial statements were available to be issued.

NOTE 2. LIQUIDITY AND AVAILABILITY

The Opera's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for subscriptions and a concentration of sponsorships received near fiscal year-end. The Opera manages liquidity during the year by utilizing the following strategies: operating with a balanced budget which assumes collection of sufficient revenue via contributions, grants, and ticket revenue to cover operating expenditures not covered by donor-restricted resources, regular analysis of actual operating results versus budget, timing of annual endowment transfers, and establishment of a line of credit to be used to fund operating shortfalls with the approval of the Board of Directors.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

The Opera's endowment investment policy employs the following principals: preservation of capital, risk aversion, adherence to investment discipline, and maintenance of sufficient liquidity to meet its cash needs.

The following table reflects the Opera's total financial assets as of May 31, 2020, and the amounts of those financial assets which could be made available within 12 months to meet operating expenditures:

| | |
|---|---------------------|
| Financial assets available to meet operating expenditures over the next 12 months | |
| Cash and equivalents | \$ 682,958 |
| Accounts receivable | 10,046 |
| Contributions for operating expenditure due in one year or less | 639,807 |
| Investments | 8,066,100 |
| Board approved endowment spending allocation year ending May 31, 2021 | 450,000 |
| Less Board designated net assets | (41,986) |
| Less net assets with donor restrictions | (8,116,020) |
| Financial assets available to meet operating expenditures | <u>\$ 1,690,905</u> |

NOTE 3. PROMISES TO GIVE

Unconditional promises to give consist of the following at May 31, 2020:

| | Amounts due in | | |
|------------------------|-----------------------|----------------------|-------------------|
| | Less than one year | One to five years | Total |
| Co-producer and other | \$ 615,560 | \$ 24,000 | \$ 639,560 |
| Comprehensive campaign | 113,414 | 14,500 | 127,914 |
| | <u>728,974</u> | <u>38,500</u> | <u>767,474</u> |
| Less allowance | (89,167) | (3,700) | (92,867) |
| Less discount | - | (256) | (256) |
| | <u>\$ 639,807</u> | <u>\$ 34,544</u> | <u>\$ 674,351</u> |

The Opera evaluates the collectability of its promises to give annually. Management believes the allowance for doubtful accounts displayed above is adequate. Unconditional promises to give due in one to five years are discounted at 3.0%.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at May 31, 2020:

| | | |
|-----------------------------------|----|---------------|
| Land | \$ | 464,466 |
| Building and improvements | | 22,984,205 |
| Furniture, fixtures and equipment | | 933,003 |
| Theatre equipment | | 3,854,091 |
| Construction in progress | | 175,250 |
| | | 28,411,015 |
| Less accumulated depreciation | | (11,125,916) |
| | | \$ 17,285,099 |

NOTE 5. INVESTMENTS

Investments at May 31, 2020, consist of the following:

| | Cost | Market |
|-----------------------|--------------|--------------|
| Money market funds | \$ 246,275 | \$ 246,275 |
| Exchange traded funds | 117,585 | 110,411 |
| Fixed income bonds | 2,835,521 | 2,930,072 |
| Equity securities | 4,322,893 | 4,779,342 |
| | \$ 7,522,274 | \$ 8,066,100 |

Investment income for the year ended May 31, 2020, consists of the following:

| | | |
|-------------------------------|----|------------|
| Interest and dividends | \$ | 196,339 |
| Unrealized and realized gains | | 410,283 |
| Investment fees | | (73,851) |
| | | \$ 532,771 |

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 6. LINE OF CREDIT

During 2018, the Opera entered into a line of credit with a financial institution for \$1,000,000. The line matured in February of 2020, and was extended through August 5, 2020. The line of credit bears interest at 0.5% over the Wall Street Journal Prime rate (3.25% at May 31, 2020). The line of credit is secured by the general assets of the Opera, excluding endowment restricted assets. Under the terms of the agreement, the Opera must maintain certain covenants. The outstanding balance on the line of credit was \$1,000,000 at May 31, 2020.

In September 2020, the Opera entered into a new line of credit agreement for \$1,000,000. The line of credit bears interest at the Wall Street Journal Prime rate (3.25% at May 31, 2020). The line of credit is secured by the general assets of the Opera, excluding endowment restricted assets.

NOTE 7. NOTES PAYABLE

During 2017, the Opera entered into a mortgage agreement with a financial institution for up to \$2,700,000 to purchase 30 condominium units, known as Steinwachs Artist Residences. The loan matures in March 2023. The note was interest only for the first 18 months, and then requires principal and interest payments. The mortgage bears interest at 4.25% fixed for the first three years and then adjusts to the prevailing three year Treasury security index plus 3.25%, with a floor of 4.25%. The payments are based on the outstanding balance after the first 18 months amortized over 20 years with a balloon at maturity. The note is secured by the condominiums. As of May 31, 2020, the unpaid balance was \$1,303,009 and total interest expensed for the year ended May 31, 2020, was \$58,872.

In May of 2020, the Opera obtained a loan through the Paycheck Protection Program – Small Business Administration for \$511,000 due to COVID-19. The loan is administered through a local financial institution with a fixed interest rate of 1% per year. The loan will mature in May 2022, two years from date of first disbursement and management anticipates with the 24 week forgiveness period the entire amount of the loan will be forgiven.

Aggregate maturities on the long-term debt at May 31, 2020, are as follows:

| | |
|------|---------------------|
| 2021 | \$ 583,454 |
| 2022 | 75,593 |
| 2023 | <u>1,154,962</u> |
| | <u>\$ 1,814,009</u> |

In August 2020, the Opera refinanced the balance on the mortgage loan and line of credit in a new term loan in the amount of \$3,000,000. The loan requires 120 consecutive monthly payments of principal and interest in the amount of \$18,269 and then 120 consecutive monthly payments of \$18,487. The note bears interest at 4% for the first 120 months and then at the five year Federal Home Loan Bank – Atlanta Rate plus 2.75% for the remaining 120 months.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

| | |
|------------------|-------------------|
| Capital projects | \$ 175,476 |
| Endowments | 204,422 |
| | <u>\$ 379,898</u> |

Net assets with donor restrictions time or purpose at May 31, 2020, consist of \$152,474 of promises to give and \$227,424 of investments.

Net assets perpetual in nature at May 31, 2020, consist of the following:

| | |
|----------------------------|---------------------|
| General endowment | \$ 6,176,122 |
| Florida cultural endowment | 1,560,000 |
| | <u>\$ 7,736,122</u> |

Net assets with donor restrictions perpetual at May 31, 2020, consist of \$7,732,622 of investments and \$3,500 of promises to give.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended May 31, 2020:

| | |
|------------------|---------------------|
| Time restriction | \$ 663,000 |
| Capital projects | 316,814 |
| Costume project | 135,000 |
| | <u>\$ 1,114,814</u> |

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 9. FAIR VALUE MEASUREMENTS

The Opera adopted the *Fair Value Measurements and Disclosures Topic* of the FASB Accounting Standards Codification which provides enhanced guidance for using fair value to measure assets and liabilities and clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the assets or liabilities and establishes a hierarchy that prioritizes the information used to develop those assumptions.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The level within the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at May 31, 2020.

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 value 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 Opera would receive if it sold the instrument.

Equity securities, mutual funds and exchange traded funds are valued at the price per share on the number 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.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 9. FAIR VALUE MEASUREMENTS (CONTINUED)

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 Opera believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at reporting date.

The following table presents the Opera's financial instruments measured at fair value on a recurring basis at May 31, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|----------------|---------------------|
| Money market funds | \$ 246,275 | \$ - | \$ - | \$ 246,275 |
| Exchange traded funds | 110,411 | - | - | 110,411 |
| Fixed income bonds | - | 2,930,072 | - | 2,930,072 |
| Equity securities | <u>4,779,342</u> | <u>-</u> | <u>-</u> | <u>4,779,342</u> |
| Total assets at fair value | <u>\$ 5,136,028</u> | <u>\$ 2,930,072</u> | <u>\$ -</u> | <u>\$ 8,066,100</u> |

NOTE 10. ENDOWMENT FUNDS

The Opera has two endowment funds: a State Matching Endowment Fund and a General Endowment Fund. The State Matching Endowment Fund is separated to ensure 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 Opera. The current state matching requires this endowment to 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 Opera 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 Opera 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.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 10. 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 Opera 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, 2020.

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 Opera classified as permanently restricted net assets: (a) 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.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 10. 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 Opera's endowment funds consisted of the following at May 31, 2020:

| | Without Donor Restrictions | With Donor Restrictions Time and Purpose | With Donor Restrictions Perpetual | Total |
|-----------------------|-------------------------------|--|---|---------------------|
| State matching | \$ 79,367 | \$ - | \$ 1,560,000 | \$ 1,639,367 |
| General | | | | |
| Endowment | 7,703 | 204,422 | 6,172,622 | 6,384,747 |
| Board designated | 41,986 | - | - | 41,986 |
| Total general | <u>49,689</u> | <u>204,422</u> | <u>6,172,622</u> | <u>6,426,733</u> |
| Total at May 31, 2020 | <u>\$ 129,056</u> | <u>\$ 204,422</u> | <u>\$ 7,732,622</u> | <u>\$ 8,066,100</u> |

Changes in endowment net assets for the year ended May 31, 2020, were as follows:

| | Without Donor Restrictions | With Donor Restrictions Time and Purpose | With Donor Restrictions Perpetual | Total |
|--|-------------------------------|--|---|---------------------|
| Balance at May 31, 2019 | \$ 355,358 | \$ 496,251 | \$ 7,695,659 | \$ 8,547,268 |
| Appropriation of assets for expenditure | (340,000) | (708,000) | - | (1,048,000) |
| Contributions | - | - | 12,049 | 12,049 |
| Transfers in from payment of pledges | - | - | 24,914 | 24,914 |
| Investment income | 40,786 | 78,800 | - | 119,586 |
| Realized and unrealized gain (loss) | 72,912 | 337,371 | - | 410,283 |
| Balance at May 31, 2020 | <u>\$ 129,056</u> | <u>\$ 204,422</u> | <u>\$ 7,732,622</u> | <u>\$ 8,066,100</u> |

NOTE 11. EMPLOYEE BENEFIT PLAN

The Opera 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 Opera 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 \$5,592 for the year ended May 31, 2020, were made by the Opera in addition to the elective deferrals made by employees.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 12. 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, 2020, \$127,914 of the original pledges for the campaign remains to be collected.

NOTE 13. CONCENTRATION OF CREDIT AND OTHER RISKS

Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At times throughout the year, the Opera'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 Opera 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 affect the amounts reported in the financial statements.

The Opera employs certain labor forces subject to a collective bargaining agreement with a union. The existing agreement will expire on May 31, 2024, and covers all stagehands or approximately 25% of the Opera's employed labor force.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 14. OPERATING LEASES

The Opera 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 of future minimum lease payments that have remaining non-cancelable terms in excess of one year as of May 31, 2020:

| Year ending May 31: | |
|-------------------------------------|-------------------|
| 2021 | \$ 69,944 |
| 2022 | 71,148 |
| 2023 | 72,376 |
| 2024 | 69,975 |
| 2025 | 67,562 |
| Thereafter | 68,866 |
| Total future minimum lease payments | <u>\$ 419,871</u> |

Total rent expense under operating leases for the year ended May 31, 2020, was \$178,322.

NOTE 15. COMMITMENTS AND CONTINGENCIES

In August 2019, the Opera entered into an agreement to purchase a parcel of land in the amount of \$625,000 to construct a new warehouse to be used to store costumes. At May 31, 2020, \$50,000 had been paid as a deposit on this contract. Subsequent to May 31, 2020, an amendment to the purchase contract was executed that extends the closing date to June 30, 2021, for an additional deposit of \$50,000 and a fee of \$10,000.

In September 2019, the Opera entered into an agreement with a contractor to provide pre-construction services for the new warehouse in the amount of \$189,725. At May 31, 2020, \$125,250 had been paid on this contract.

During March 2020, the World Health Organization declared the Coronavirus outbreak a global pandemic. Actions taken around the world to help mitigate the spread of the Coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The Coronavirus and actions taken to mitigate it have had, and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Opera operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Opera, to date, the Opera has seen a decrease in revenue. As the economy continues to open throughout its geographic region, management anticipates revenue to return to normal levels.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, adversely impacted in the near-term as a result of these conditions, including collectability of receivables. The ultimate impact of the pandemic on the Opera's results of operations, financial position, and liquidity or capital resources cannot be reasonably estimated at this time.