

**PALM BEACH OPERA, INC.**

***Financial Statements***

***For the year ended  
May 31, 2017***

**HAFER**

***Certified Public Accountants and Consultants***

249 Royal Palm Way; Suite 300

**Palm Beach, FL 33480**

T: (561) 655-8700 F: (561) 655-6964

[cpa@haferco.com](mailto:cpa@haferco.com)

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# HAFER

*Certified Public Accountants and Consultants*

249 ROYAL PALM WAY, SUITE 300

**PALM BEACH, FLORIDA 33480**

TELEPHONE (561) 655-8700

FACSIMILE (561) 655-6964

WWW.HAFERCPAS.COM

## **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, 2017, 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***

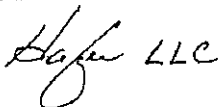
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2017, 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  
October 31, 2017

**PALM BEACH OPERA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
*May 31, 2017*

**Assets**

Cash and cash equivalents	\$ 798,807
Certificate of deposit - unrestricted	341
Certificate of deposit - Florida Cultural Endowment Program Fund (Notes 2, 3 and 12)	1,200,000
Pledges receivable, net (Note 8)	657,470
Grants receivable	202,696
Prepaid expenses	117,995
Property and equipment, net (Note 9)	187,854
Beneficial interest in perpetual trust (Notes 4, 5 and 12)	282,525
Beneficial interest in remainder trust (Notes 5, 11, and 14)	156,342
Other assets	<u>14,680</u>
<b>Total assets</b>	<b><u>\$ 3,618,710</u></b>

**Liabilities and net assets**

Accounts payable and accrued liabilities	\$ 139,515
Deferred revenues	631,153
Line of credit payable - Northern Trust (Note 7)	<u>10,000</u>
Total liabilities	<u>780,668</u>
<b>Net assets</b>	
Unrestricted	214,402
Temporarily restricted (Note 11)	1,141,115
Permanently restricted (Note 12)	<u>1,482,525</u>
Total net assets	<u>2,838,042</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,618,710</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, 2017*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating support and revenues</b>				
Opera revenues	\$ 1,344,257	\$ -	\$ -	\$ 1,344,257
Contributions	3,341,917	182,317	-	3,524,234
Contributions in-kind	48,769	-	-	48,769
Grant income	100,764	180,016	-	280,780
Special events	338,193	-	-	338,193
Investment income	1,696	-	-	1,696
Other income	10,603	-	-	10,603
Net assets released from restrictions	641,937	(641,937)	-	-
<b>Total operating support and revenues</b>	<u>5,828,136</u>	<u>(279,604)</u>	<u>-</u>	<u>5,548,532</u>
<b>Operating expenses</b>				
Program services:				
Production	2,582,603	-	-	2,582,603
Box office	86,512	-	-	86,512
Education	374,635	-	-	374,635
Supporting services:				
General and administrative	752,687	-	-	752,687
Development	559,771	-	-	559,771
Marketing	428,669	-	-	428,669
<b>Total operating expenses</b>	<u>4,784,877</u>	<u>-</u>	<u>-</u>	<u>4,784,877</u>
<b>Change in net assets from operations</b>	<u>1,043,259</u>	<u>(279,604)</u>	<u>-</u>	<u>763,655</u>
<b>Non-operating revenues, support, gains, losses and expenses</b>				
Depreciation expense	(22,646)	-	-	(22,646)
Loss on disposal of property and equipment	(21,191)	-	-	(21,191)
Unrealized gain on beneficial interest in remainder trust	-	244	-	244
Unrealized gain on beneficial interest in perpetual trust	-	-	497	497
<b>Total non-operating revenues, support, gains, losses and expenses</b>	<u>(43,837)</u>	<u>244</u>	<u>497</u>	<u>(43,096)</u>
<b>Change in net assets</b>	999,422	(279,360)	497	720,559
Net assets, beginning of the year	(785,020)	1,420,475	1,482,028	2,117,483
<b>Net assets, end of the year</b>	<u>\$ 214,402</u>	<u>\$ 1,141,115</u>	<u>\$ 1,482,525</u>	<u>\$ 2,838,042</u>

See notes to financial statements.

**PALM BEACH OPERA, INC.**  
**STATEMENT OF CASH FLOWS**  
*For the year ended May 31, 2017*

<b>Cash flows from operating activities</b>		\$ 720,559
Change in net assets		
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>		
Depreciation expense		22,646
Loss on disposal of property and equipment		21,191
Unrealized gain on beneficial interest in remainder trusts		(244)
Unrealized gain on beneficial interest in perpetual trusts		(497)
<u>Change in assets and liabilities:</u>		
Pledges receivable		327,290
Grants receivable		(8,079)
Prepaid expenses		(63,024)
Other assets		2,905
Accounts payable and accrued liabilities		28,447
Deferred revenues		40,227
Net cash provided by operating activities		<u>1,091,421</u>
<b>Cash flows from investing activities</b>		
Proceeds from earnings on certificate of deposit		4,213
Purchases of property and equipment		<u>(46,901)</u>
Net cash (used) by investing activities		<u>(42,688)</u>
<b>Cash flows (to) financing activities</b>		
Principal payments on line of credit		<u>(500,000)</u>
<b>Net increase in cash and cash equivalents</b>		548,733
Cash and cash equivalents, beginning of year		<u>250,074</u>
<b>Cash and cash equivalents, end of year</b>		<u><u>\$ 798,807</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes		<u><u>\$ -</u></u>
Cash paid for interest		<u><u>\$ 10,942</u></u>

See notes to financial statements.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
*May 31, 2017*

**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 live opera at an international standard of excellence and to enrich the life of the communities it serves with a diverse offering of educational programs, concerts and lectures. 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, 2017 are insurance coverage, future rent, various administrative costs, and costs associated with future productions.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

**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. Also see Note 3.

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. Also see Note 9.

Deferred revenues

Deferred revenues represent funds received from advance ticket sales for the upcoming season of the Opera, as well as certain other receipts applicable to the 2017 – 2018 fiscal year.

Contributions

The Opera follows FASB ASC 958, 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. Unconditional promises to give are reported at the present value of estimated future cash flows, using a discount rate that approximates the rate of government securities (see Note 8).

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 goods and services

For the year ended May 31, 2017, the Opera received contributed goods and services for office space, advertising and other services, which totaled \$48,769. This amount is reflected as in-kind contributions and expenses in the accompanying financial statements based upon estimated fair values assigned to them.

Additionally, a significant number of volunteers donated their time to the Opera's administration, educational programs, and fundraising campaigns. The value of donated volunteer time is not reflected in the accompanying financial statements, as it is presently not subject to objective valuation.

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.



**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

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

Advertising

The Opera expenses the cost of advertising as incurred. Advertising expense was \$148,014 for the year ended May 31, 2017.

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 taxable unrelated business income for the year ended May 31, 2017, 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's federal income tax returns for 2014 – 2016 remain subject to possible 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. At May 31, 2017, the remaining balance of \$19,444, 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 October 31, 2017, the date the financial statements were available to be issued in accordance with FASB ASC 855.

Recently issued accounting guidance, not yet adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". This new guidance will replace most existing U.S. GAAP guidance on this topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issues ASU No. 2015-14, which deferred, by one year, the effective date for the revenue reporting standard. For non-public entities, such as the Opera, these new ASUs are effective for annual periods beginning after December 15, 2018. The Opera is currently evaluating the impact that these ASUs will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For non-public entities, such as the Opera, the new standard is effective for annual periods beginning after December 15, 2019. While the Opera expects the adoption of this standard to result in an increase to its reported assets and liabilities, the Opera has not yet determined the full impact that the adoption of this standard will have on its financial statements and related disclosures.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

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

Recently issued accounting guidance, not yet adopted (continued)

In August 2016, the FASB issued ASU No. 2016-14, "Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities." The standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The provisions of this standard are effective for fiscal years beginning after December 31, 2017. The Opera is currently evaluating the impact that the adoption of this standard will have on its financial statements and related disclosures.

**NOTE 3: Certificates of deposit**

Unrestricted and restricted certificates of deposits at May 31, 2017 consist of the following:

<b>Certificate of deposit, interest rate: 0.345% original issuance date: August 16, 2013; maturity date: August 16, 2019</b>	<b><u>\$ 1,200,341</u></b>
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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.

**NOTE 4: Beneficial interest in 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 \$282,526 at May 31, 2017, 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.

**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.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

**NOTE 5: Fair value measurements (continued)**

The following schedule details the fair value of the Opera's assets, by level, at May 31, 2017:

<u>Description</u>	<u>Fair Value at May 31, 2017</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 remainder trust	\$ 156,342	156,342	-	-
Beneficial interest in perpetual trust	\$ 282,526	282,526	-	-

**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, 2017 was \$24,049.

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

On September 25, 2016, 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 three years, expiring September 25, 2019 and bears a variable interest rate using the LIBOR rate plus 2.75%. At May 31, 2017, the interest rate was 3.67889%. The line of credit is payable in monthly installments of interest only, until September 25, 2019, 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, 2017, the outstanding balance on the line of credit is \$10,000.

**NOTE 8: Pledges receivable**

At May 31, 2017 the Opera has recorded net pledges receivable in the amount of \$657,470. 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 future periods 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, during the fiscal years ending, as follows:

May 31, 2018	\$ 355,500
May 31, 2019	170,000
May 31, 2020	50,000
May 31, 2021	50,000
May 31, 2022 and thereafter	50,000
	<u>675,500</u>
Less: present value discount (Note 2)	<u>(18,030)</u>
Pledges receivable, net	<u>657,470</u>

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

**NOTE 9: Property and equipment**

Property and equipment at May 31, 2017 consists of the following:

Equipment	\$ 128,779
Leasehold improvements	181,281
Furniture and fixtures	20,224
Costumes and scenery	<u>54,933</u>
	385,217
Less: accumulated depreciation	<u>(197,363)</u>
Net property and equipment	<u>\$ 187,854</u>

Depreciation expense for the year ended May 31, 2017 was \$22,646. During the year ended May 31, 2017, the Opera disposed of various property and equipment with a remaining net book value of \$21,191.

**NOTE 10: 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, 2017, the Opera has uninsured deposits in the amount of \$1,107,153. The Opera believes that the financial institutions it uses have sufficient ratings to mitigate this risk.

**NOTE 11: Temporarily restricted net assets**

Temporarily restricted net assets consist of the following at May 31, 2017:

Cash on hand	\$ 160,107
Grants receivable	202,696
Beneficial interest in remainder trust (Note 14)	156,342
Pledges receivable, net discount	<u>621,970</u>
Total	<u>\$ 1,141,115</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 \$282,525 at May 31, 2017, is also recorded as a permanently restricted net asset (see Notes 4 and 5 for additional information).

Accordingly, assets totaling \$1,482,025 are permanently restricted at May 31, 2017.

**PALM BEACH OPERA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*May 31, 2017*

**NOTE 13: Commitments and contingencies**

Effective, July 1, 2016, the Opera entered into a five-year lease, ending July 31, 2021 for office space with KAS Gold, LLC for administrative office space. The lease calls for annual rent increase of 3%. For the year ended May 31, 2017, office lease expense was \$90,658. The future lease payments are as follows:

May 31, 2018 <sup>1</sup>	\$ 93,131
May 31, 2019	104,414
May 31, 2020	107,546
May 31, 2021	110,772
May 31, 2022	18,552
	<u>434,415</u>

**NOTE 14: Beneficial interest in remainder trust**

During the year ended May 31, 2016, it was discovered that the Opera is the beneficiary of a charitable remainder uni-trust. According to the trust agreement, the Opera will receive a distribution from the trust, of 100% of the remaining assets in accordance with the trust agreement, upon the death of the final participant in each trust. At May 31, 2017, the fair value of the trust is \$156,342.

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<sup>1</sup> There is no rent due for July 2017 under the terms of the lease.