

FORT WORTH OPERA ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

Year Ended August 31, 2014



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fort Worth Opera Association, Inc.
Fort Worth, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Fort Worth Opera Association, Inc. (the "Association"), which comprise the statement of financial position as of August 31, 2014, 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 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 Association as of August 31, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rylander, Clay + Opitz, LLP

December 15, 2014



FORT WORTH OPERA ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 316,254	\$ 348,857
Accounts and other receivables	41,726	1,743
Contributions receivable	96,150	147,770
Due from related parties	173,118	159,336
Prepaid expenses	21,780	38,261
Investments	1,084,155	1,092,525
Property and equipment, net	8,096	16,339
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 1,741,279</u></u>	<u><u>\$ 1,804,831</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 50,487	\$ 45,059
Deferred revenue	587,403	673,198
	<u> </u>	<u> </u>
Total liabilities	637,890	718,257
Commitments (Note 9)		
Net Assets		
Unrestricted		
Designated	621,240	463,401
Temporarily restricted	482,149	623,173
	<u> </u>	<u> </u>
Total net assets	<u>1,103,389</u>	<u>1,086,574</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$ 1,741,279</u></u>	<u><u>\$ 1,804,831</u></u>

See notes to financial statements.



FORT WORTH OPERA ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

Year Ended August 31, 2014 with Comparative Total for 2013

	Unrestricted	Temporarily Restricted	Total	
			2014	2013
Revenue and other support				
Arts Council allocation	\$ 99,043	\$ 20,750	\$ 119,793	\$ 83,121
Grants and contributions	3,738,011	79,400	3,817,411	3,632,003
Special fundraising events, net of expenses of \$91,906 in 2014 and \$98,303 in 2013	270,800	-	270,800	212,924
Admissions	732,079	-	732,079	837,627
Performance fees	84,357	-	84,357	88,983
Interest income	14,846	-	14,846	9,260
Net unrealized and realized gain on investments	76,788	-	76,788	37,604
Other revenue	89,830	-	89,830	69,226
Net assets released from restrictions:				
Satisfaction of program restrictions	93,404	(93,404)	-	-
Satisfaction of time restrictions	147,770	(147,770)	-	-
Total revenue and other support	5,346,928	(141,024)	5,205,904	4,970,748
Expenses				
Production	4,104,390	-	4,104,390	3,601,066
Management and general	454,545	-	454,545	446,182
Fundraising	630,154	-	630,154	478,094
Total expenses	5,189,089	-	5,189,089	4,525,342
Change in net assets	157,839	(141,024)	16,815	445,406
Net assets at beginning of year	463,401	623,173	1,086,574	641,168
Net assets at end of year	\$ 621,240	\$ 482,149	\$ 1,103,389	\$ 1,086,574

See notes to financial statements.



FORT WORTH OPERA ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS Years Ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 16,815	\$ 445,406
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,143	7,136
Net unrealized and realized gain on investments	(76,788)	(37,604)
Change in operating assets:		
Decrease in accounts and contributions receivable	11,637	121,492
Increase in due from related parties	(13,782)	(125,836)
Decrease in prepaid expenses	16,481	1,037
Change in operating liabilities:		
Increase in accounts payable and accrued expenses	5,428	38,832
Decrease in due to related party	-	(12,438)
Increase (decrease) in deferred revenue	(85,795)	70,506
Net cash provided (used) by operating activities	<u>(117,861)</u>	<u>508,531</u>
Cash Flows from Investing Activities		
Purchase of investments	(256,876)	(712,311)
Proceeds from sale of investments	342,034	268,691
Purchase of property and equipment	-	(5,040)
Proceeds from sale of property and equipment	100	-
Net cash provided (used) by investing activities	<u>85,258</u>	<u>(448,660)</u>
Net increase (decrease) in cash and cash equivalents	(32,603)	59,871
Cash and cash equivalents at beginning of year	<u>348,857</u>	<u>288,986</u>
Cash and cash equivalents at end of year	<u><u>\$ 316,254</u></u>	<u><u>\$ 348,857</u></u>

See notes to financial statements.



FORT WORTH OPERA ASSOCIATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES Year Ended August 31, 2014 with Comparative Total for 2013

	Production	Management and General	Fundraising	Total	
				2014	2013
Salaries and benefits	\$ 1,003,493	\$ 154,254	\$ 386,109	\$ 1,543,856	\$ 1,330,422
Professional fees and contract services	1,355,664	117,884	-	1,473,548	1,349,027
Payroll taxes	72,745	11,192	27,979	111,916	107,419
Auditorium rental	108,765	-	-	108,765	111,500
Costumes, scenery, music, lighting, and props	328,259	-	-	328,259	227,476
Royalties and translations	130,444	-	-	130,444	67,092
Auditions and transportation	28,602	-	-	28,602	28,358
Ticket surcharge	82,050	-	-	82,050	93,763
Drayage	54,982	-	-	54,982	32,899
Postage	8,866	3,240	4,944	17,050	20,596
Supplies	6,235	22,107	-	28,342	24,182
Rent	138,404	30,381	-	168,785	152,176
Miscellaneous	-	65,941	-	65,941	99,351
Insurance	19,870	2,208	-	22,078	28,422
Interest	-	-	-	-	4,158
Telephone	12,698	605	1,814	15,117	15,578
Printing	120,124	4,239	16,959	141,322	109,484
Office machines and small equipment	-	21,629	-	21,629	16,519
Dues and publications	-	11,609	-	11,609	9,824
Education	148,138	-	-	148,138	134,191
Board	-	1,113	-	1,113	571
Advertising	485,051	-	-	485,051	457,545
Development events	-	-	192,349	192,349	97,653
Depreciation	-	8,143	-	8,143	7,136
Total expenses	\$ 4,104,390	\$ 454,545	\$ 630,154	\$ 5,189,089	\$ 4,525,342

See notes to financial statements.



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Fort Worth Opera Association, Inc. (the “Association”) is a Texas nonprofit corporation chartered on May 29, 1946. Its purpose is to cultivate an appreciation of opera by sponsoring operatic productions.

Management Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Cash and Cash Equivalents

The Association considers all unrestricted investments with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable

Contributions receivable represent pledges made by donors to be paid in future years. Management evaluates the adequacy of the allowance for doubtful accounts based on a periodic review of individual accounts. The primary factors considered in determining the amount of the allowance are collection history, the aging of the accounts, and other specific information known to management that may affect collectability. No allowance for doubtful accounts is considered necessary at August 31, 2014 and 2013.

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 based on closing market prices. Unrealized and realized gains and losses are included in the statement of activities.

Property and Equipment

Property and equipment purchases exceeding \$3,500 are capitalized at cost and depreciated over estimated useful lives using the straight-line method.

Donations of property and equipment are recorded as support at their fair value. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Deferred Revenue

The Association receives prepaid fees from the sale of season tickets for next year's productions, advertisement sales for next year's program, and sales of admissions to next year's special events. These amounts are recorded as deferred revenue until recognized in the subsequent year.

Revenue Recognition

The Association's primary source of revenue is contributions from donors who are interested in furthering the mission of the Association. Contributions are recognized when received, or in the event of an unconditional pledge, recognized when the commitment has been made to the Association. Other revenue and support is recognized when earned.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Materials and Services

Donated materials and services are recorded as contributions in the accompanying statements at their estimated values at the date of receipt. The value of donated materials and services included as contributions in the financial statements and the corresponding expenses for the years ended August 31, 2014 and 2013 is \$87,543 and \$53,707, respectively. No amounts have been reflected in the statements for volunteer services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Association's activities.

Advertising Costs

Advertising costs are recorded as expense in the statement of activities as incurred.

Functional Allocation of Expenses

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



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Association is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation within the meaning of Section 509(a) of the Code. At August 31, 2014 and 2013, management determined that there were no uncertain tax positions that require disclosure in the financial statements.

The Association's Forms 990, *Return of Organization Exempt from Income Tax*, for 2013, 2012, and 2011 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Prior Year Comparative 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended August 31, 2013, from which the summarized information is derived.

Subsequent Events

Management evaluated subsequent events through December 15, 2014, which is the date the financial statements were available to be issued.

NOTE 2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at August 31, 2014 are \$96,150 and are expected to be collected in the following year.

NOTE 3. INVESTMENTS AND FAIR VALUE

The Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS AND FAIR VALUE (CONTINUED)

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include publicly traded stocks, mutual funds, certificates of deposit, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable managed funds, are carried at estimated fair values as provided by the investment managers. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2014 and 2013.

	2014		
	Fair Value	Cost	Level
Cash and cash equivalents	\$ 81,582	\$ 81,582	1
Domestic equities	404,679	298,228	1
Fixed income	314,222	307,845	1
Commodities funds	22,151	21,402	1
Alternative investments			
Hedge funds	261,521	257,213	2
	<u>\$ 1,084,155</u>	<u>\$ 966,270</u>	

	2013		
	Fair Value	Cost	Level
Cash and cash equivalents	\$ 58,534	\$ 58,534	1
Domestic equities	351,866	290,681	1
Fixed income	407,755	406,612	1
Commodities funds	25,018	26,212	1
Alternative investments			
Hedge funds	243,038	244,687	2
Real Estate funds	6,314	4,982	2
	<u>\$ 1,092,525</u>	<u>\$ 1,031,708</u>	



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS AND FAIR VALUE (CONTINUED)

Other Assets

The recorded value of contributions receivable approximates fair value as the discount rate approximates market rates. The recorded values of cash and cash equivalents and accounts receivable approximate fair value based on their short-term nature.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2014 and 2013:

	2014	2013
Equipment	\$ 142,772	\$ 142,872
Automobiles	35,680	35,680
	<u>178,452</u>	<u>178,552</u>
Less accumulated depreciation	(170,356)	(162,213)
Property and equipment, net	<u>\$ 8,096</u>	<u>\$ 16,339</u>

NOTE 5. LINE OF CREDIT

The Association has a line of credit from a bank in the amount of \$500,000 that is secured by its investments, with an interest rate of 2.83% and is due on September 30, 2015. At August 31, 2014 and 2013, there are no amounts outstanding under this agreement.

NOTE 6. RESTRICTIONS ON ASSETS

Temporarily restricted net assets of \$482,149 at August 31, 2014 consist of amounts restricted by donors of \$96,150 for upcoming seasons and \$385,999 for specific programs of the Association. Temporarily restricted net assets of \$623,173 at August 31, 2013 consist of amounts restricted by donors of \$147,770 for upcoming seasons and \$475,403 for specific programs of the Association

NOTE 7. DESIGNATED NET ASSETS

The Association's designated net assets consist of cash and cash equivalents, equities, fixed income securities, and mutual funds, all of which are designated by the Board of Directors to function as a permanent reserve ("The Reserve Fund").

Changes in the reserve net assets for the years ended August 31, 2014 and 2013 follow:

	2014	2013
Balance at beginning of year	\$ 463,401	\$ 370,163
Investment income	7,241	7,768
Investment gains	69,638	38,601
Reclassification (to) from undesignated net assets	80,960	46,869
Balance at end of year	<u>\$ 621,240</u>	<u>\$ 463,401</u>



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DESIGNATED NET ASSETS (CONTINUED)

Return Objectives and Risk Parameters

The primary objective of the Reserve Fund is to maximize long-term returns without exposure to undue risk. Whereas it is understood that fluctuating rates of return are characteristic of the securities markets, the greatest concern of the managers should be long-term appreciation of the assets and consistency of total portfolio returns.

Strategies Employed for Achieving Objectives

The Reserve Fund utilizes JPMorgan Chase Bank to achieve investment objectives.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The annual distributable funds from the Reserve Fund shall be up to 5% of the market value of the Reserve Fund as of calendar year-end, December 31st for distribution in the following calendar year. The Executive Committee approved a minimum requirement of \$1 million for the Reserve Fund before distributions may be made. Distributions of up to 5% may be made as long as the distributions do not cause the Reserve Fund to fall below \$1 million in value (the Reserve may fall below \$1 million due to market fluctuation).

Interpretation of Relevant Law

The Association holds all donor-restricted reserve contributions by requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted reserve funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent reserve, (b) the original value of subsequent gifts to the permanent reserve, and (c) accumulations to the permanent reserve made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted reserve fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association. In accordance with the law, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted reserve funds: the duration and preservation of the funds; the purposes of the Association and the donor-restricted reserve fund; the general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Association; and the investment policies established by the Association. The reserve contains no donor restricted funds at August 31, 2014 and 2013.

NOTE 8. RELATED PARTY TRANSACTIONS

The Association received annual contributions from its board members totaling \$174,329 and \$231,000 in 2014 and 2013, respectively. These contributions are unrestricted and serve as dues for membership on the board. The Association also has amounts due from board members of \$170,500 and \$157,980 at August 31, 2014 and 2013, respectively.



FORT WORTH OPERA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. RELATED PARTY TRANSACTIONS (CONTINUED)

The Fort Worth Opera Endowment (the “Endowment”) was formed on July 13, 2011 to perform charitable activities including holding, managing, soliciting, receiving, administering, and investing property for the exclusive use, benefit, and support of the Association, and to be responsive to the needs and demands of the Association. The Association and the Endowment share common facilities and employees. In 2014, the Association paid for expenses on behalf of and reimbursable by the Endowment totaling \$1,262. At August 31, 2014, the Association has a receivable from the Endowment in the amount of \$2,618.

NOTE 9. COMMITMENTS

Leases

The Association entered into operating lease agreements in multiple locations for the lease of office and warehouse space having remaining terms in excess of one year. Rent expense approximates \$122,000 and \$111,000 in 2014 and 2013, respectively. At August 31, 2014, the minimum lease commitments follow:

2015	\$ 119,000
2016	73,000
2017	64,000
2018	53,000
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	\$ 309,000
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