

**FORT WORTH OPERA ENDOWMENT**

**AUDITED FINANCIAL STATEMENTS**

**Year Ended August 31, 2014**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Fort Worth Opera Endowment  
Fort Worth, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Fort Worth Opera Endowment (the "Endowment") which comprise the statement of financial position as of August 31, 2014, the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Endowment'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 Endowment'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 Endowment as of August 31, 2014, and the changes in 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 Endowment'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 ENDOWMENT

## STATEMENTS OF FINANCIAL POSITION

August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,837	\$ 13,079
Investments	197,941	67,210
Assets restricted for permanent endowment	<u>1,045,525</u>	<u>1,045,525</u>
<b>Total assets</b>	<u><u>\$ 1,247,303</u></u>	<u><u>\$ 1,125,814</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Due to related party	<u>\$ 2,618</u>	<u>\$ 1,356</u>
<b>Total liabilities</b>	2,618	1,356
Net assets		
Temporarily restricted	199,160	78,933
Permanently restricted	<u>1,045,525</u>	<u>1,045,525</u>
<b>Total net assets</b>	<u>1,244,685</u>	<u>1,124,458</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,247,303</u></u>	<u><u>\$ 1,125,814</u></u>

See notes to financial statements.



## FORT WORTH OPERA ENDOWMENT

### STATEMENTS OF ACTIVITIES

Year Ended August 31, 2014 with Comparative Total for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Revenue and other support					
Contributions	\$ -	\$ -	\$ -	\$ -	\$ 1,005,100
Investment income	-	30,606	-	30,606	10,269
Net unrealized and realized gain on investments	-	100,125	-	100,125	47,466
Net assets released from restrictions:					
Satisfaction of program restrictions	10,504	(10,504)	-	-	-
<b>    Total revenue and other support</b>	<b>10,504</b>	<b>120,227</b>	<b>-</b>	<b>130,731</b>	<b>1,062,835</b>
Expenses					
General and administrative	10,504	-	-	10,504	3,803
<b>    Total expenses</b>	<b>10,504</b>	<b>-</b>	<b>-</b>	<b>10,504</b>	<b>3,803</b>
<b>    Change in net assets</b>	<b>-</b>	<b>120,227</b>	<b>-</b>	<b>120,227</b>	<b>1,059,032</b>
Net assets at beginning of year	-	78,933	1,045,525	1,124,458	65,426
<b>Net assets at end of year</b>	<b>\$ -</b>	<b>\$ 199,160</b>	<b>\$ 1,045,525</b>	<b>\$ 1,244,685</b>	<b>\$ 1,124,458</b>

See notes to financial statements.



## FORT WORTH OPERA ENDOWMENT

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

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 120,227	\$ 1,059,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized and realized gain on investments	(100,125)	(47,466)
Change in operating assets:		
Decrease in due from related party	-	12,438
Change in operating liabilities:		
Increase in due to related party	1,262	1,356
Contributions restricted to endowment	-	(1,005,100)
<b>Net cash provided by operating activities</b>	<b>21,364</b>	<b>20,260</b>
Cash Flows from Investing Activities		
Purchase of investments	(30,606)	(1,020,268)
<b>Net cash used by investing activities</b>	<b>(30,606)</b>	<b>(1,020,268)</b>
Cash Flows from Financing Activities		
Proceeds from contributions restricted to endowment	-	1,005,100
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>1,005,100</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(9,242)</b>	<b>5,092</b>
Cash and cash equivalents at beginning of year	13,079	7,987
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,837</b>	<b>\$ 13,079</b>

See notes to financial statements.



# FORT WORTH OPERA ENDOWMENT

## NOTES TO FINANCIAL STATEMENTS

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

#### **Nature of Activities**

The Fort Worth Opera Endowment (the “Endowment”) is a Texas non-profit corporation chartered on July 13, 2011. Its purpose is to perform charitable activities including holding, managing, soliciting, receiving, administering, and investing property for the exclusive use, benefit, and support of the Fort Worth Opera Association (the “Association”), and to be responsive to the needs and demands of the Association.

#### **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 Endowment considers all unrestricted investments with an initial maturity of three months or less to be cash equivalents.

#### **Payable to Related Party**

Amounts due to related party represent amounts owed or pledged from the Endowment to the Association.

#### **Revenue Recognition**

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

#### **Income Taxes**

The Endowment 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.



# FORT WORTH OPERA ENDOWMENT

## NOTES TO FINANCIAL STATEMENTS

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

#### Income Taxes (Continued)

The Endowment'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.

#### Subsequent Events

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

### NOTE 2. 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
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.

#### Cash and Cash Equivalents

The recorded value of cash and cash equivalents approximates fair value based on its short-term nature.

#### 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 money market funds, bond funds, and equity 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.



# FORT WORTH OPERA ENDOWMENT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. INVESTMENTS AND FAIR VALUE (Continued)

#### Investments (Continued)

At August 31, 2014 and 2013, all investments are classified as Level 1, and consist of the following:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 20,506	\$ 20,506	\$ 124,901	\$ 124,901
Bond funds	453,663	452,394	437,394	448,828
Equity funds	769,297	670,440	550,440	491,540
	<u>\$ 1,243,466</u>	<u>\$ 1,143,340</u>	<u>\$ 1,112,735</u>	<u>\$ 1,065,269</u>

### NOTE 3. RESTRICTIONS ON ASSETS

Temporarily restricted net assets of \$26,845 at August 31, 2014 and \$25,054 at August 31, 2013 are restricted by the donor for the benefit of the Children's Opera Theatre.

### NOTE 4. ENDOWMENT FUND

During 2011, the Board of Directors (the "Directors") of the Endowment established a permanent endowment fund for the benefit and support of the Association. Donations to the endowment fund are to be permanently maintained and earnings or net gains on the permanent fund are to be appropriated for spending at the discretion of the Directors.

#### Composition and Activity of Endowment Funds

Endowment net asset composition by type of funds and changes in the endowment net assets for the years ended August 31, 2014 and 2013 follow:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ -	\$ 53,879	\$ 1,045,525	\$ 1,099,404
Investment income	-	29,891	-	29,891
Investment gains	-	97,787	-	97,787
Appropriations for expenditure	9,242	(9,242)	-	-
Expenses and other activity	(9,242)	-	-	(9,242)
Balance at end of year	<u>\$ -</u>	<u>\$ 172,315</u>	<u>\$ 1,045,525</u>	<u>\$ 1,217,840</u>



# FORT WORTH OPERA ENDOWMENT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. ENDOWMENT FUND (Continued)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ -	\$ 1	\$ 40,425	\$ 40,426
Current year contributions	-	-	1,005,100	1,005,100
Investment income	-	10,029	-	10,269
Investment gains	-	46,358	-	46,358
Appropriations for expenditure	2,509	(2,509)	-	-
Expenses and other activity	(2,509)	-	-	(2,509)
Balance at end of year	<u>\$ -</u>	<u>\$ 53,879</u>	<u>\$ 1,045,525</u>	<u>\$ 1,099,404</u>

#### Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The primary objective of the Endowment 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 manager(s)' greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns.

#### Strategies Employed for Achieving Objectives

The Endowment Fund utilizes Luther King Capital Management to achieve investment objectives.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The annual distributable funds from the Endowment Fund shall be up to 7% of the average market value of the Endowment Fund on a three-year rolling average basis, set annually. The Endowment Committee approved a minimum requirement of the value of the yearly budget for the Association (currently approximately \$4.2 million) for the Endowment Fund before distributions may be made. Distributions of up to 7% may be made as long as the distributions do not cause the Endowment Fund to fall below the total of all contributions received since inception, exclusive of investment income (the Endowment may fall below \$4.2 million due to market fluctuation). Approval of expenses related to the cost of doing business, such as bank fees, investment management fees, legal fees, and other routine expenses is not required unless they exceed more than 1% of the corpus in a given quarter.

#### Interpretation of Relevant Law

The Endowment holds all donor-restricted endowment contributions by requiring the preservation 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 Endowment classifies permanently restricted net assets as (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. The remaining portion of the donor-restricted endowment 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 Endowment.



# FORT WORTH OPERA ENDOWMENT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. ENDOWMENT FUND (Continued)

#### Interpretation of Relevant Law (Continued)

In accordance with the law, the Endowment considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the funds; the purposes of the Endowment and the donor-restricted endowment 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 Endowment; and the investment policies established by the Endowment.

### NOTE 5. CONCENTRATIONS

There were no donor concentrations during the year ended August 31, 2014. During the year ended August 31, 2013, approximately 99% of all contributions received came from a single donor.

### NOTE 6. RELATED PARTY TRANSACTIONS

The Endowment shares its key personnel with the Association and receives certain administrative assistance in this regard. The value of these services is not significant and, as such, no amounts related to these services have been reflected for the years ended August 31, 2014 and 2013. The Endowment has payables to the Association in the amount of \$2,618 and \$1,356 at August 31, 2014 and 2013, respectively.

