

**Financial Statements**  
**Opera House Arts**  
**October 31, 2018**

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**Opera House Arts**

**October 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Opera House Arts

I have audited the accompanying financial statements of Opera House Arts (a nonprofit organization), which comprise the statement of financial position as of October 31, 2018, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Opera House Arts as of October 31, 2018, 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.

*Cheryl L. Boulet, CPA*

Blue Hill, ME  
January 11, 2019

## Statement of Financial Position

### Opera House Arts

As of October 31, 2018

#### Assets

##### Current Assets

Cash and cash equivalents	\$	31,579
Investments		801
Accounts receivable		12,245
Pledges receivable		68,565
Inventory		7,034
Prepaid expenses		3,069
Bond deposit		13,368
<b>Total Current Assets</b>		<u>136,661</u>

Property and equipment, net 1,778,443

##### Other Assets

Beneficial interest in assets held by others		57,258
<b>Total Other Assets</b>		<u>57,258</u>

**Total Assets** \$ 1,972,362

#### Liabilities and Net Assets

##### Current Liabilities

Accounts payable	\$	4,651
Accrued expenses		16,099
Fiscal agent payable		4,909
Sales tax payable		548
Current portion of long-term debt		4,312
<b>Total Current Liabilities</b>		<u>30,519</u>

##### Long-Term Liabilities

Long-term debt, less current portion 111,083

**Total Liabilities** 141,602

##### Net Assets

###### Unrestricted net assets:

Undesignated		50,054
Board designated		26,843
Net investment in property and equipment		1,663,048

**Total Unrestricted** 1,739,945

Temporarily restricted net assets 90,815

**Total Net Assets** 1,830,760

**Total Liabilities and Net Assets** \$ 1,972,362

See accompanying auditor's report and notes to financial statements.

## Statement of Activities

### Opera House Arts

For the Year Ended October 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds</u>
<b>Support and Revenues</b>			
Support:			
Contributions	\$ 563,154	\$ 53,500	\$ 616,654
Grant income	1,500	6,900	8,400
Total support	<u>564,654</u>	<u>60,400</u>	<u>625,054</u>
Revenues:			
Merchandise sales	30,287	-	30,287
Program fees	186,105	-	186,105
Events	84,556	-	84,556
Miscellaneous	12,719	-	12,719
Interest and dividend income	491	270	761
Total revenues	<u>314,158</u>	<u>270</u>	<u>314,428</u>
Net assets released from restrictions	<u>53,537</u>	<u>(53,537)</u>	<u>-</u>
<b>Total Support and Revenues</b>	<u>932,349</u>	<u>7,133</u>	<u>939,482</u>
<b>Expenses and Losses</b>			
Program services	593,593	-	593,593
Management and general	93,222	-	93,222
Fundraising	112,635	-	112,635
<b>Total Expenses</b>	<u>799,450</u>	<u>-</u>	<u>799,450</u>
Net realized and unrealized gains on investments	3,459	1,953	5,412
Loss on receivables	(10,800)	-	(10,800)
<b>Increase in Net Assets</b>	125,558	9,086	134,644
Net assets at beginning of year	<u>1,614,387</u>	<u>81,729</u>	<u>1,696,116</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,739,945</u>	<u>\$ 90,815</u>	<u>\$ 1,830,760</u>

See accompanying auditor's report and notes to financial statements.

## Statement of Functional Expenses

### Opera House Arts

For the Year Ended October 31, 2018

	Program Services	Management and General	Fundraising	Total
Cost of merchandise	\$ 18,234	\$ -	\$ -	\$ 18,234
Wages & salaries	243,287	35,164	56,158	334,609
Employee benefits	2,466	8,976	2,469	13,911
Payroll taxes	17,765	4,799	4,291	26,855
Professional fees	6,875	9,952	-	16,827
Licenses, permits & taxes	954	292	-	1,246
Marketing & development	33,516	4,158	18,291	55,965
Events	-	863	24,063	24,926
Program expenses	166,737	414	4,807	171,958
Travel, meals & lodging	472	3,702	554	4,728
Supplies	3,206	2,159	55	5,420
Office expenses	3,857	6,260	702	10,819
Interest expense	6,086	930	-	7,016
Banking and processing fees	3,658	5,575	-	9,233
Insurance	-	8,003	-	8,003
Occupancy	33,066	1,975	1,245	36,286
Depreciation expense	53,414	-	-	53,414
	<u>\$ 593,593</u>	<u>\$ 93,222</u>	<u>\$ 112,635</u>	<u>\$ 799,450</u>

See accompanying auditor's report and notes to financial statements.

## Statement of Cash Flows

### Opera House Arts

#### For the Year Ended October 31, 2018

##### Cash Flows From Operating Activities

Increase in net assets	\$ 134,644
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	53,414
Donated investments	(24,903)
Net realized and unrealized (gains) losses on investments	(5,412)
(Increase) decrease in operating assets	
Accounts receivable	11,015
Pledges receivable	(22,672)
Inventory	(1,824)
Prepaid expenses	(2,838)
Bond deposit	(13,368)
Increase (decrease) in operating liabilities	
Accounts payable	(6,613)
Accrued expenses	(11,674)
Fiscal agent payable	6
Sales tax payable	548
<b>Net cash provided by operating activities</b>	<b><u>110,323</u></b>

##### Cash Flows From Investing Activities

Distributions of assets held by others	3,690
Purchase of equipment	(5,911)
Purchase of investments	(761)
Sale of investments	<u>82,852</u>
<b>Net cash provided by investing activities</b>	<b><u>79,870</u></b>

##### Cash Flows From Financing Activities

Principal payments on line of credit	(2,391)
Principal payments on long-term debt	<u>(171,068)</u>
<b>Net cash used by financing activities</b>	<b><u>(173,459)</u></b>

**Net increase in cash** 16,734

Cash at beginning of year 14,845

**Cash at end of year** \$ 31,579

##### Supplemental Disclosure:

Interest paid during the year \$ 7,016

See accompanying auditor's report and notes to financial statements.

## Notes to Financial Statements

### Opera House Arts

#### Note A - Summary of Significant Accounting Policies

##### Nature of Activities

Opera House Arts of Stonington, Maine (OHA) advances the public interest in and understanding of the performing and visual arts; exposes the public to the works of established and emerging artists through live performances, film, readings, concerts, and similar activities; provides regional and national artists with a forum to expose their work to the public; and offers workshops, classes, seminars and similar activities to the public.

##### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions, using the following classifications:

Unrestricted - Represents those resources that have no donor-imposed restrictions, neither permanently nor temporarily, and can be used for any purpose designated by OHA's governing board.

Temporarily Restricted - Represents resources and the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of OHA pursuant to those stipulations.

Permanently Restricted - Represents resources and the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of OHA.

In addition, OHA is required to present the statement of cash flows.

##### Revenue Recognition

OHA recognizes unconditional promises to give in accordance with donor restrictions in the period the commitment for support is obtained. Conditional promises to give are recorded when the required conditions have been met. Revenues received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any 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 recognized. Restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

## **Notes to Financial Statements**

### **Opera House Arts**

#### **Note A - Summary of Significant Accounting Policies - Continued**

##### **Donated Services**

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated materials are recorded at the fair value at the date of the gift.

##### **Estimates**

The preparation of financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

OHA considers all highly liquid investments and debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude any cash and cash equivalents included in the endowment funds.

##### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

##### **Trade Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history of customers having outstanding balances and current relationships with them, it has concluded that realized losses on balances outstanding at year-end will be immaterial.

##### **Inventory**

Inventory is valued at cost and consists of food and other items held for sale.

##### **Income Taxes**

OHA qualifies as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. OHA has also received income tax exempt status in the State of Maine and files a Form 990 tax return in the U.S. federal jurisdiction. With few exceptions, OHA is no longer subject to U.S. federal or Maine income tax examinations by tax authorities for years before 2015 due to statute of limitations. Management of OHA believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefit.

## Notes to Financial Statements

### Opera House Arts

#### Note A - Summary of Significant Accounting Policies - Continued

##### Property and Equipment

Property and equipment with a cost or value greater than \$2,500 are recorded at cost when purchased or at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Furniture, fixtures and equipment	5-10
Real property	40

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. Assets sold or otherwise disposed of are removed from the accounts, along with the related depreciation allowances, and any gain or loss is recognized. Depreciation expense for the year ended October 31, 2018 was \$53,414.

##### Beneficial Interest in Assets Held by Maine Community Foundation

OHA is an income beneficiary of assets held by Maine Community Foundation (MCF) as a result of making nonreciprocal transfers of assets to MCF and specifying itself as the beneficiary. As such, OHA may receive distributions from these assets each year. However, the Board of Directors of MCF (Board) shall have the power to modify, consistent with State law, including seeking approval of the appropriate court or Attorney General, where applicable, any restriction or condition on the distribution of funds to OHA if, in the sole judgment of the Board, (without the necessity of the approval of any participating trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

The estimated fair market value of OHA's beneficial interest in the assets held by MCF is recognized in the statement of financial position.

##### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are charged to each program based on direct expenditures incurred and by allocation among the programs and supporting services benefited according to bases determined by management.

##### Advertising

Advertising costs are expensed by OHA when incurred. Advertising expense for the year ended October 31, 2018 was \$18,836.

##### Endowment

Generally accepted accounting principles in the United States address the net asset classification of board-designated and donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA).

## Notes to Financial Statements

### Opera House Arts

#### Note A - Summary of Significant Accounting Policies - Continued

UPMIFA was enacted in Maine effective July 1, 2009. A key component of UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

#### Subsequent Events

OHA has evaluated subsequent events through January 11, 2019, the date the financial statements were available to be issued.

#### Note B - Property and Equipment

Property and equipment consisted of the following as of October 31, 2018:

Land	\$ 381,954
Furniture & fixtures	228,787
Buildings & improvements	1,653,647
Vehicle	<u>9,411</u>
Total Property & Equipment	2,273,799
Less: Accumulated depreciation	<u>(495,356)</u>
Property & Equipment, net	<u>\$ 1,778,443</u>

#### Note C - Investments

OHA's investments are carried at fair value. The fair value of mutual funds is based on quoted prices in active markets. The fair value of OHA's beneficial interest in Maine Community Foundation (MCF) assets is based on a valuation provided by MCF. The following schedule summarizes the fair value of the types of investments held as of October 31, 2018:

	<u>Fair Value</u>
Mutual funds	\$ 801
Beneficial interest in MCF assets	<u>57,258</u>
	<u>\$ 58,059</u>

Investment return is summarized as follows:

Interest and dividend income	\$ 761
Investment fees	(1,133)
Net realized and unrealized losses	<u>5,412</u>
Investment return	<u>\$ 5,040</u>

## Notes to Financial Statements

### Opera House Arts

#### Note D - Fair Value Measurement

Generally accepted accounting principles in the United States (GAAP) define 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 as of the measurement date and in the principal or most advantageous market for that asset or liability. GAAP specifies a hierarchy of inputs to valuation techniques, which categorizes inputs to fair value measurement that reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

Level 1 Inputs - Unadjusted quoted market prices for identical assets and liabilities in an active market. An active market is one in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs - Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

GAAP requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, OHA's financial assets and liabilities that were accounted for at fair value on a recurring basis as of October 31, 2018.

<u>Fair Value Measurement at October 31, 2018</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Mutual funds	\$ 801	\$ -	\$ -	\$ 801
Beneficial interest in Maine				
Community Foundation assets	-	-	57,258	57,258
Total	<u>\$ 801</u>	<u>\$ -</u>	<u>\$ 57,258</u>	<u>\$ 58,059</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values for the Organization's Level 1 investments were based on quoted market prices. The fair value of OHA's beneficial interest in Maine Community Foundation (MCF) assets has been measured on a recurring basis using a valuation provided by MCF (Level 3 inputs).

## Notes to Financial Statements

### Opera House Arts

#### Note D - Fair Value Measurement – Continued

The following table summarizes the changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Balance at November 1, 2017	\$ 105,911
Investment income, net	5,037
Expenditures	<u>(53,690)</u>
Balance at October 31, 2018	<u>\$ 57,258</u>

#### Note E - Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges due in more than one year are recorded after discounting to the present value of the future cash flows.

Proceeds from the unconditional promises to give are expected to be received in the following periods:

In one year or less	<u>\$ 68,565</u>
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As of October 31, 2018, OHA had received a conditional promise to give with a balance of \$45,000, payable in installments of \$15,000 per year over the next three years, conditioned upon certain programming. This conditional pledge will not be recognized as an asset or as revenue until the conditions are substantially met.

#### Note F - Temporarily Restricted Net Assets

Temporarily restricted net assets as of October 31, 2018 are available for the following purposes:

Scholarship funds	\$ 30,415
Community building	6,900
Soundproofing	3,500
For future periods	<u>50,000</u>
	<u>\$ 90,815</u>

## Notes to Financial Statements

### Opera House Arts

#### Note G - Endowment

OHA's board-designated endowment fund has been established to support OHA and its programs. As required by GAAP, net assets associated with board-designated endowment funds are classified as unrestricted net assets.

#### Return Objective and Risk Parameters

OHA transfers its board-designated endowment funds to the Maine Community Foundation (MCF) and relies on MCF's investment policies for endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. The MCF invests the board-designated endowment assets to provide a reasonable, prudent balance between risk and return. OHA expects its endowment funds, over time, to produce an average rate of more than 5% annually. Actual returns in any given year may vary from this amount.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the MCF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The MCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

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

The Board of Opera House Arts determines its spending policy on a year-to-year basis, depending on the facts and circumstances of that year.

Endowment net asset composition as of October 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	<u>\$ 26,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,843</u>

## Notes to Financial Statements

### Opera House Arts

#### Note G - Endowment – Continued

Changes in board-designated endowment net assets for the year-ended October 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2017	\$ 26,082	\$ -	\$ -	\$ 26,082
Investment income	661	-	-	661
Investment fees	(858)	-	-	(858)
Net appreciation - realized and unrealized	3,508	-	-	3,508
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>(2,550)</u>	<u>-</u>	<u>-</u>	<u>(2,550)</u>
Endowment net assets, October 31, 2018	<u>\$ 26,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,843</u>

#### Note H - Long-Term Debt

At October 31, 2018, the Organization had the following note payable:

Mortgage payable to Camden National Bank, monthly installments of \$775, interest rate of 4.36% until 2022, then interest rate variable based on Wall Street Journal Highest Prime Rate plus .25%, secured by all assets.	<u>115,395</u>
Less: current maturities	<u>(4,312)</u>
Long-term debt, less current portion	<u>\$ 111,083</u>

Expected maturities of the principal of long-term debt at October 31, 2018, are as follows:

Year Ending <u>October 31,</u>	
2019	\$ 4,312
2020	4,504
2021	4,704
2022	4,914
2023	5,132
Thereafter	<u>91,829</u>
Total	<u>\$ 115,395</u>

## Notes to Financial Statements

### Opera House Arts

#### Note I - Operating Lease - Commitment

OHA leases a Toshiba copier under an operating lease agreement. The agreement expires in 2023. Lease expense for the year ended October 31, 2018 totaled \$5,027. Future minimum payments under this non-cancelable operating lease are as follows:

Year ending October 31:	
2019	\$ 3,775
2020	3,775
2021	3,775
2022	3,775
2023	<u>2,205</u>
Total	<u>\$ 17,305</u>

OHA leases the Burnt Cove Church Community Center under an operating lease agreement that expires on May 31, 2022. Lease expense for the year ended October 31, 2018 totaled \$1. Future minimum rental payments under this non-cancelable lease are \$1 per year. Additionally, OHA is financially responsible under the terms of the lease for the following expenses associated with the premises: utilities; services, including without limitation, snow removal, cleaning, and landscaping; property taxes or assessments; repairs of damage caused by the negligence or willful misconduct of OHA or its employees or agents; routine repairs and maintenance, the cost of which does not exceed \$575 in any single instance; a policy of general liability insurance; and, a policy of casual insurance.

#### Note J - Line of Credit

OHA has a \$25,000 line of credit available from Camden National Bank. As of October 31, 2018, there was a balance of \$0 on this line of credit. OHA incurred a negligible amount in interest expense for carrying this facility in the year ending October 31, 2018.

#### Note K - Retirement Plan

OHA maintains a SIMPLE IRA plan whereby OHA matches eligible employee contributions up to between 1% and 3% of compensation depending upon the given year. Employee eligibility is determined based on earnings of at least \$5,000 for at least two prior years. OHA contributed \$2,797 on behalf of employees during the year ended October 31, 2018.