

**PALM BEACH OPERA, INC. AND
SUBSIDIARY**

Consolidated Financial Statements

***For the year ended
May 31, 2023***

HAFER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PALM BEACH OPERA, INC. AND SUBSIDIARY

Opinion

We have audited the accompanying consolidated financial statements of PALM BEACH OPERA, INC. AND SUBSIDIARY ("the Opera"), which comprise the consolidated statement of financial position as of May 31, 2023, and the related consolidated statement of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PALM BEACH OPERA, INC. AND SUBSIDIARY as of May 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Opera changed its method of accounting related to leases as required by the provisions of FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to that matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report. We are required to be independent of PALM BEACH OPERA, INC. AND SUBSIDIARY and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PALM BEACH OPERA, INC. AND SUBSIDIARY's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PALM BEACH OPERA, INC. AND SUBSIDIARY's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PALM BEACH OPERA, INC. AND SUBSIDIARY's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Palm Beach, Florida
September 26, 2023

PALM BEACH OPERA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2023

Assets

Cash and cash equivalents	\$ 1,040,465
Certificates of deposit - Florida Cultural Endowment Program Fund (Notes 4 and 14)	1,995,684
Pledges receivable (Note 5)	2,224,333
Grants receivable	238,944
Prepaid expenses	119,778
Property and equipment, net (Note 6)	4,140,603
Operating right-of-use assets	199,979
Beneficial interest in perpetual trust (Notes 7, 9 and 14)	263,348
Beneficial interest in remainder trust (Notes 8, 9 and 14)	140,037
Other assets	49,121
	49,121
Total assets	\$ 10,412,292

Liabilities and net assets

Accounts payable and accrued expenses	\$ 130,398
Operating lease liabilities	199,979
Deferred revenues	582,984
Note payable (Note 12)	1,015,355
	1,015,355
Total liabilities	1,928,716

Net assets

Net assets without donor restrictions:	
Board designated (Note 15)	877,756
Undesignated	3,607,211
	3,607,211
Total net assets without donor restrictions	4,484,967
Net assets with donor restrictions (Note 14)	3,998,609
	3,998,609
Total net assets	8,483,576
Total liabilities and net assets	\$ 10,412,292

The accompanying notes are an integral part of these consolidated financial statements.

PALM BEACH OPERA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total Funds
Operating revenue and other support			
Opera revenues	\$ 1,307,762	\$ -	\$ 1,307,762
Contributions	1,981,700	121,060	2,102,760
Contributions in-kind	5,325	-	5,325
Grant income	-	374,647	374,647
Special events	680,608	-	680,608
Investment return	6,942	-	6,942
Net assets released from restrictions	<u>2,681,123</u>	<u>(2,681,123)</u>	<u>-</u>
 Total operating support and revenues	 <u>6,663,460</u>	 <u>(2,185,416)</u>	 <u>4,478,044</u>
 Operating expenses			
Program services:			
Production	3,236,161	-	3,236,161
Box office	73,462	-	73,462
Education	561,436	-	561,436
Supporting services:			
General and administrative	930,431	-	930,431
Development	760,899	-	760,899
Marketing	<u>433,241</u>	<u>-</u>	<u>433,241</u>
 Total operating expenses	 <u>5,995,630</u>	 <u>-</u>	 <u>5,995,630</u>
 Change in net assets from operations	 <u>667,830</u>	 <u>(2,185,416)</u>	 <u>(1,517,586)</u>
 Non-operating revenues, support, gains, losses and expenses			
Depreciation expense	(99,550)	-	(99,550)
Unrealized loss on beneficial interest in remainder trust (Note 8)	-	(12,461)	(12,461)
Unrealized loss on beneficial interest in perpetual trust (Note 7)	<u>-</u>	<u>(11,928)</u>	<u>(11,928)</u>
 Total non-operating revenues, support, gains, losses and expenses	 <u>(99,550)</u>	 <u>(24,389)</u>	 <u>(123,939)</u>
 Change in net assets	 568,280	 (2,209,805)	 (1,641,525)
Net assets, beginning	<u>3,916,687</u>	<u>6,208,414</u>	<u>10,125,101</u>
 Net assets, ending	 <u>\$ 4,484,967</u>	 <u>\$ 3,998,609</u>	 <u>\$ 8,483,576</u>

The accompanying notes are an integral part of these consolidated financial statements.

PALM BEACH OPERA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended May 31, 2023

Description	Box Office	Development	Education	General and Administrative	Marketing	Production	Total Operating Expenses
Advertising	\$ -	\$ -	\$ -	\$ -	\$ 170,137	\$ 1,000	\$ 171,137
Audio and visual	-	-	-	-	-	10,138	10,138
Computer expenses	-	5,495	360	18,116	14,856	11,714	50,541
Donor recognition	-	5,811	-	158	-	-	5,969
Dues and subscriptions	294	398	150	13,355	1,140	2,046	17,383
Employee benefits	2,526	12,273	89,748	11,163	11,505	24,116	151,331
Event costs	-	371,872	5,957	206	-	-	378,035
Housing	-	-	123,420	-	-	160,725	284,145
Insurance	-	-	-	190,830	-	-	190,830
Interest expense	-	-	-	53,752	-	-	53,752
Licenses, permits and fees	-	63	87	64,362	-	75	64,587
Occupancy	-	-	147	119,003	-	73,544	192,694
Office expense	574	2,252	12,896	42,077	4,978	16,952	79,729
Other employee costs	-	56	200	24,132	-	956	25,344
Other production costs	-	-	-	-	-	64,963	64,963
Outside services	1,219	54,425	11,456	128,410	60,430	4,032	259,972
Payroll and payroll taxes	68,228	301,963	267,992	193,089	164,754	1,857,574	2,853,600
Professional fees	-	-	2,000	36,811	2,720	98,440	139,971
Repairs and maintenance	-	-	-	-	-	84,100	84,100
Retirement contributions	621	4,281	1,462	10,372	2,721	6,506	25,963
Scenery and costumes	-	-	-	-	-	340,950	340,950
Supplies	-	-	-	-	-	3,493	3,493
Travel	-	2,010	45,561	2,718	-	98,779	149,068
Utilities	-	-	-	21,877	-	38,609	60,486
Venue	-	-	-	-	-	337,449	337,449
	<u>\$ 73,462</u>	<u>\$ 760,899</u>	<u>\$ 561,436</u>	<u>\$ 930,431</u>	<u>\$ 433,241</u>	<u>\$ 3,236,161</u>	<u>\$ 5,995,630</u>

The accompanying notes are an integral part of these consolidated financial statements.

PALM BEACH OPERA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended May 31, 2023

Cash flows from operating activities	
Change in net assets	\$ (1,641,525)
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities</u>	
Depreciation expense	99,550
Unrealized loss on beneficial interest in remainder trusts	12,461
Unrealized loss on beneficial interest in perpetual trusts	11,928
<u>Changes in assets and liabilities:</u>	
Pledges receivable	2,150,887
Grants receivable	(72,335)
Prepaid expenses	6,041
Operating right-of-use assets	63,457
Other assets	4,317
Accounts payable and accrued liabilities	94,300
Operating lease liabilities	(63,457)
Deferred revenues	(10,628)
Security deposits payable	(42,000)
Net cash provided by operating activities	<u>612,996</u>
Cash flows from investing activities	
Redemption of certificates of deposit	5,278
Purchase of property and equipment	(143,000)
Net cash used by investing activities	<u>(137,722)</u>
Cash flows from financing activities	
Principal payments on note payable	(1,127,187)
Net cash used by financing activities	<u>(1,127,187)</u>
Net decrease in cash and cash equivalents	(651,913)
Cash and cash equivalents, beginning	<u>1,692,378</u>
Cash and cash equivalents, ending	<u><u>\$ 1,040,465</u></u>
Supplemental disclosures of cash flow information:	
Cash paid for income taxes	<u><u>\$ -</u></u>
Cash paid for interest	<u><u>\$ 53,752</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 1: Organization

Palm Beach Opera, Inc (“PB Opera”) is a not-for-profit organization incorporated in the State of Florida in May 1962. PB Opera is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. PB 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 PB Opera’s largest sources of revenue. PB Opera is located in West Palm Beach, Florida. PB Opera also owns Palm Beach Opera Holdings, Inc. (PB Holdings) which owns and holds certain real property beginning August 2021.

NOTE 2: Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of PB Opera and its wholly owned subsidiary, PB Holdings (collectively referred to as “the Opera”). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of accounting and presentation

The consolidated financial statements of the Opera have been prepared on the accrual basis of accounting in accordance with accounting principles 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 two categories of net assets – without donor restrictions, or with donor restrictions – according to externally (donor) imposed restrictions.

Net assets without donor restrictions 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 consolidated financial statements as without donor restrictions operating funds that increase or decrease without donor restrictions net assets.

Net assets with donor restrictions comprise of both temporarily and permanently restricted donations. Temporarily restricted donations 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. Permanently restricted donations 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 consolidated financial statements as part of net assets without donor restrictions or net assets with donor restrictions based on donors’ restrictions and interpretations of Florida law.

Estimates

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

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including money market funds. Cash equivalents include highly liquid securities, including certificates of deposit, with original maturities of 90 days or less.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

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 consolidated financial statements, the Opera does not believe any impairment exists.

Prepaid expenses

Expenses applicable to the next fiscal year are included in prepaid expenses. Included in prepaid expenses are insurance coverage, future rent, various administrative costs, and costs associated with future productions.

Property and equipment

Property and equipment are recorded at cost. Capitalized property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period when the donor's commitment is received. All contributions are considered to be available for without donor restrictions use unless specifically restricted by the donor. When applicable, amounts received that are restricted for future periods (time restrictions) or are restricted by the donor for specific purposes (purpose restriction) are reported as with donor restricted support that increases that net asset class. As previously noted, the Opera does not have any with donor restrictions net assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restrictions net assets and are reported in the consolidated 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 without donor restrictions.

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 2023 – 2024 fiscal year.

Donated services

For the year ended May 31, 2023, the Opera received contributed goods and services for marketing and other services, which totaled \$5,325. This amount is reflected as in-kind contributions and expenses in the accompanying consolidated 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 consolidated financial statements, as it is presently not subject to objective valuation.

Allocation of functional expenses

The cost of providing the Opera programs services and other activities have been summarized on a function basis in the consolidated statement of functional activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Advertising

The Opera expenses the cost of advertising as incurred. Advertising expense was \$171,137 for the year ended May 31, 2023.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 2: Summary of significant accounting policies (continued)

Compensated absences

Employees of the Opera are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. The Opera has a use it or lose it prior to fiscal year end policy and, accordingly, no liability has been recorded in the accompanying consolidated financial statements. The Opera's policy is to recognize the costs of compensated absences when paid to employees.

Income taxes

The Opera is generally exempt from income taxes under Internal Revenue Code Section 501(c)(3). Therefore, the Opera has made no provision for federal or state income taxes in the accompanying consolidated financial statements. Generally, the Opera's federal income tax returns for 2020 – 2022 remain subject to possible examination by the Internal Revenue Service.

Lease obligations

On June 1, 2022, the Opera adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)* using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application.

The Opera elected the package of practical expedients permitted under the transition guidance, which allowed the Opera to carryforward its historical lease classifications, its assessments on whether a contract was or contains a lease, and initial direct costs for any leases that existed prior to June 1, 2022. The Opera also elected to keep leases with an initial term of 12 months or less off the *Consolidated Statement of Financial Position* and recognize the associated lease payments in the *Consolidated Statement of Activities and Changes in Net Assets* on a straight-line basis over the lease term.

Upon adoption, the Opera recognized total right-of-use (ROU) assets of \$263,436, with corresponding lease liabilities of \$263,436 on the *Consolidated Statement of Financial Position*. The adoption did not impact beginning net assets.

Under *Topic 842*, the Opera determines if an arrangement is a lease at inception. For leases with a lease term greater than 12 months, ROU assets and lease liabilities are recognized at the commencement date based on the present value of the remaining lease payments over the lease term. ROU assets represent the Opera's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Since the rates implicit in the Opera's leases are not readily determinable, the Opera uses a risk-free discount rate, determined using a period comparable to that of the lease term, for all its leases.

The Opera has an operating lease related to a warehouse. The Opera does not have any finance leases. The Opera's leases do not contain any material non-lease components. The Opera's leases do not contain any variable payments. Certain leases may include renewal options, which can be exercised at the sole discretion of the Opera, and only lease options that the Opera believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities.

Operating leases are included as operating lease ROU assets and operating lease liabilities on the *Consolidated Statement of Financial Position*. When applicable, finance leases are included as property and equipment, net and finance lease liabilities on the *Consolidated Statement of Financial Position*. Operating lease costs are recognized on a straight-line basis over the lease terms. When applicable, finance lease assets are amortized on a straight-line basis over the shorter of the estimated useful life or the lease terms.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 3: Liquidity and availability of financial assets

The Opera financial assets available to meet cash needs for general expenditure within one year at May 31, 2023 amounted to \$2,404,489. As of May 31, 2023, \$130,398 was not available for general use because of contractual or donor-imposed restrictions within one year.

NOTE 4: Certificates of deposit

Unrestricted and restricted certificates of deposits at May 31, 2023 consist of the following:

Certificate of deposit, interest rate: 1.95% - 0.35% original issuance date: January 26, 2022; maturity date: July 15, 2024 to November 8, 2024	<u>\$ 1,995,684</u>
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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 14).

NOTE 5: Pledges receivable

At May 31, 2023, the Opera has recorded net pledges receivable in the amount of \$2,224,333. 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 net assets with donor restrictions 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 is due to be received, during the fiscal years ending, as follows:

2024	\$ 2,188,053
2025	20,000
2026	<u>20,000</u>
	2,228,053
Less: present value discount	<u>(3,720)</u>
Pledge receivable, net	<u>\$ 2,224,333</u>

The Opera applies a discount rate of 4% to its pledges with terms in excess of one year.

NOTE 6: Property and equipment

A schedule of property, equipment, and accumulated depreciation was as follows at May 31, 2023:

Land	\$ 781,132
Building	3,218,868
Equipment	154,029
Leasehold improvements	196,897
Furniture and fixtures	163,226
Costumes and scenery	<u>54,933</u>
	4,569,085
Less: accumulated depreciation	<u>(428,482)</u>
	<u>\$ 4,140,603</u>

For the year ended May 31, 2023, depreciation expense was \$99,550.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 7: 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 \$263,348, at May 31, 2023, based on the fair value of the trust (see Note 9 for additional information regarding fair value) and is classified as net assets with donor restrictions in the accompanying consolidated financial statements. For the year ended May 31, 2023, the Opera recorded unrealized loss of \$11,928 related to the trust.

NOTE 8: Beneficial interest in remainder trust

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, 2023, the fair value of the trust is \$140,037 (see Note 9 for additional information regarding fair value). For the year ended May 31, 2023, the Opera recorded \$12,461 of unrealized loss related to the trust.

NOTE 9: 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.

The following schedule details the fair value of the Opera’s assets, by level, at May 31, 2023:

Description	Fair Value at May 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in remainder trust	\$ 140,037	140,037	-	-
Beneficial interest in perpetual trust	\$ 263,348	263,348	-	-

NOTE 10: Concentration of credit 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; balances at times may exceed this federally insured limit. At May 31, 2023, the Opera did not have any uninsured deposits.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 11: Line of credit payable

On August 16, 2021, the Opera entered into a revolving line of credit agreement in the amount of \$750,000 with First Republic Bank for general working capital purposes. The line of credit expires August 16, 2023 and bears a variable interest rate of Prime minus 0.25%. At May 31, 2023, the interest rate was 8.0%. The line of credit is payable in monthly installments of interest only, until August 16, 2023, at which time all principal and accrued interest are payable in full. The line of credit is collateralized by the Opera's real and personal property. At May 31, 2023, the outstanding balance on the line of credit is \$0.

NOTE 12: Note payable

Mortgage note payable

During 2021, the Opera entered into a mortgage agreement with First Republic Bank in the amount of \$3,200,000. The mortgage bears a stated interest rate of 2.90% per annum and is payable in monthly installments of \$15,078, with all outstanding principal and any accrued interest payable in full on September 1, 2031. The note is collateralized by the Opera's real and personal property. At May 31, 2023, the outstanding balance on the note payable was \$1,015,355.

Future estimated minimum principal maturities are as follows:

2024	\$ 85,788
2025	85,788
2026	85,788
2027	85,788
2028 and thereafter	672,203
	<u>\$ 1,015,355</u>

For the year ended May 31, 2023, the Opera incurred and paid interest on the note in the amount of \$53,752.

NOTE 13: Leases

Effective, July 1, 2016, the Opera entered into a five-year lease, ending July 31, 2021, with two additional one-year extensions through July 31, 2023, for administrative office space. For the year ended May 31, 2023, office lease expense was \$119,002.

The Opera is party to an operating lease as discussed in Note 2 with a term of 62 months. The Opera does not have any finance leases. The Opera's lease provides for minimum lease payments and does not include variable payments. The lease agreement does not include any material residual value guarantees or restrictive covenants. For the year ended May 31, 2023, the operating lease costs, excluding sales tax, were \$63,457.

Weighted-average remaining lease term and discount rates are as follows:

Weighted-average remaining lease term (years)	38
Weighted-average discount rate	3.2%

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023

NOTE 13: Leases (continued)

The following is a schedule of future payments of lease liabilities as of May 31, 2023:

2024	\$ 65,800
2025	65,800
2026	65,800
2027	<u>5,804</u>
Total undiscounted cash flows	203,204
Less: imputed interest	<u>(3,225)</u>
Present value of lease liabilities	<u>\$ 199,979</u>

Supplemental cash flow information related to leases:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases, excluding sales tax	\$ 63,427

NOTE 14: Net assets with donor restrictions

Net assets with temporary donor restrictions

Net assets with temporary donor restrictions consist of the following May 31, 2023:

Grants receivable	\$ 238,944
Beneficial interest in remainder trust (Note 8)	140,037
Pledges receivable, net of discount	<u>2,156,280</u>
	<u>\$ 2,535,261</u>

Net assets with permanent donor restrictions

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 funds with permanent donor restrictions 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 without donor restriction funds for use in operations.

In addition, the beneficial interest in perpetual trust which had a fair value of \$263,348 at May 31, 2023, is also recorded as net assets with permanent donor restrictions (see Notes 7 and 9 for additional information).

Accordingly, assets totaling \$1,463,348 are net assets with permanent donor restrictions at May 31, 2023.

NOTE 15: Net assets without donor restrictions – board designated

On September 27, 2018, the Opera's Board of Directors approved the establishment of a Board designated operating reserve to support the Opera's day to day operations in the event of unforeseen shortfalls. The Board designated operating reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. At May 31, 2023, the balance of the Board designated operating reserve was \$877,756 and is included in the accompanying consolidated statement of financial position.

PALM BEACH OPERA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16: 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. For the year ended May 31, 2023, the Opera’s expenses related to the Plan were \$25,963.

NOTE 17: Subsequent events

Management has evaluated subsequent events through September 26, 2023, the date the consolidated financial statements were available to be issued.