

TOLEDO OPERA ASSOCIATION
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED MAY 31, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Toledo Opera Association
Toledo, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Toledo Opera Association, which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Opera Association as of May 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program expenses, development and fundraising expenses, and administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Toledo, Ohio
September 12, 2018

**TOLEDO OPERA ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 95,863	\$ 118,016
Investment Securities	3,043,069	2,442,446
Contributions Receivable, Net	572,949	808,755
Grant Receivables	-	28,704
Prepaid Expenses	8,761	7,691
Property and Equipment, Net	25,099	28,619
Total Assets	\$ 3,745,741	\$ 3,434,231
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bank Line of Credit	\$ 100,000	\$ 100,000
Accounts Payable	174,315	134,126
Deferred Revenue	-	30,486
Advance Ticket Sales Proceeds	61,167	91,920
Capital Lease Obligation	22,188	27,667
Total Liabilities	357,670	384,199
NET ASSETS		
Unrestricted:		
Undesignated Deficit	(234,100)	(152,838)
Board-Designated Endowment	1,852,755	1,414,654
Total Unrestricted Net Assets	1,618,655	1,261,816
Temporarily Restricted	500,593	697,477
Permanently Restricted	1,268,823	1,090,739
Total Net Assets	3,388,071	3,050,032
Total Liabilities and Net Assets	\$ 3,745,741	\$ 3,434,231

See accompanying Notes to Financial Statements.

**TOLEDO OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
REVENUE, GAINS, AND OTHER SUPPORT					
Sound Vision Campaign Contributions	\$ 18,666	\$ 160,500	\$ 178,084	\$ 357,250	\$ 1,599,865
Individual Contributions	292,788	95,260	-	388,048	292,579
Corporate Contributions	78,862	425,573	-	504,435	406,149
Grants	13,590	13,249	-	26,839	51,408
Toledo Opera Guild Contributions	-	31,000	-	31,000	42,000
Season Subscriptions	110,977	-	-	110,977	130,723
Single Tickets	134,339	-	-	134,339	83,984
Program Advertising	-	7,965	-	7,965	7,616
Special Event Fundraising, Net	69,798	-	-	69,798	-
Education Outreach Contributions	-	103,400	-	103,400	119,080
Investment Return	207,518	-	-	207,518	196,934
Net Assets Released from Restrictions	1,033,831	(1,033,831)	-	-	-
Total Revenue, Gains, and Other Support	<u>1,960,369</u>	<u>(196,884)</u>	<u>178,084</u>	<u>1,941,569</u>	<u>2,930,338</u>
EXPENSES					
Operating:					
Production	1,174,076	-	-	1,174,076	892,084
Education Outreach	135,668	-	-	135,668	154,595
Total	<u>1,309,744</u>	<u>-</u>	<u>-</u>	<u>1,309,744</u>	<u>1,046,679</u>
Development and Fundraising	53,355	-	-	53,355	102,855
Administrative	240,431	-	-	240,431	256,704
Total Expenses	<u>1,603,530</u>	<u>-</u>	<u>-</u>	<u>1,603,530</u>	<u>1,406,238</u>
CHANGE IN NET ASSETS	356,839	(196,884)	178,084	338,039	1,524,100
Net Assets - Beginning of Year	<u>1,261,816</u>	<u>697,477</u>	<u>1,090,739</u>	<u>3,050,032</u>	<u>1,525,932</u>
NET ASSETS - END OF YEAR	<u><u>\$ 1,618,655</u></u>	<u><u>\$ 500,593</u></u>	<u><u>\$ 1,268,823</u></u>	<u><u>\$ 3,388,071</u></u>	<u><u>\$ 3,050,032</u></u>

See accompanying Notes to Financial Statements.

**TOLEDO OPERA ASSOCIATION
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
REVENUE, GAINS, AND OTHER SUPPORT				
Sound Vision Campaign Contributions	\$ 1,225,736	\$ 283,390	\$ 90,739	\$ 1,599,865
Individual Contributions	165,193	127,386	-	292,579
Corporate Contributions	113,325	292,824	-	406,149
Grants	29,379	22,029	-	51,408
Toledo Opera Guild Contributions	20,000	22,000	-	42,000
Season Subscriptions	130,723	-	-	130,723
Single Tickets	83,984	-	-	83,984
Program Advertising	-	7,616	-	7,616
Education Outreach Contributions	-	119,080	-	119,080
Investment Return	196,934	-	-	196,934
Net Assets Released from Restrictions	581,671	(581,671)	-	-
Total Revenue, Gains, and Other Support	2,546,945	292,654	90,739	2,930,338
EXPENSES				
Operating:				
Production	892,084	-	-	892,084
Education Outreach	154,595	-	-	154,595
Total	1,046,679	-	-	1,046,679
Development and Fundraising	102,855	-	-	102,855
Administrative	256,704	-	-	256,704
Total Expenses	1,406,238	-	-	1,406,238
CHANGE IN NET ASSETS	1,140,707	292,654	90,739	1,524,100
Net Assets - Beginning of Year	121,109	404,823	1,000,000	1,525,932
NET ASSETS - END OF YEAR	\$ 1,261,816	\$ 697,477	\$ 1,090,739	\$ 3,050,032

See accompanying Notes to Financial Statements.

**TOLEDO OPERA ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 338,039	\$ 1,524,100
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Contributions to Permanently Restricted Net Assets	(178,084)	(90,739)
Depreciation	3,520	753
Net Realized and Unrealized Gains on Investment Securities	(153,470)	(164,942)
(Increase) Decrease in Assets:		
Contribution Receivables	235,806	(397,094)
Grant Receivables	28,704	(1,686)
Prepaid Expenses	(1,070)	(7,461)
Increase (Decrease) in Liabilities:		
Accounts Payable	40,189	90,948
Deferred Revenue	(30,486)	30,486
Advance Ticket Sales Proceeds	(30,753)	19,154
Net Cash Provided by Operating Activities	252,395	1,003,519
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchases of Investment Securities	(447,153)	(1,125,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for:		
Permanently Restricted Purposes	178,084	90,739
Principal Payments on Capital Lease Obligation	(5,479)	-
Net Borrowings on Bank Line-of-Credit	-	60,000
Net Cash Provided by Operating Activities	172,605	150,739
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(22,153)	28,436
Cash and Cash Equivalents - Beginning of Year	118,016	89,580
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 95,863	\$ 118,016
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Office Equipment Acquired Under Capital Lease	\$ -	\$ 27,667

See accompanying Notes to Financial Statements.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Toledo Opera Association (the Association) is a nonprofit organization formed in 1957 to promote the opera through public performances and educational programs.

Significant accounting policies followed by the Association are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of 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 financial statements and the reported amounts of revenues and expenses during each reporting period. The most significant areas involving the use of management's estimates and assumptions is the allowance for doubtful receivables and the allocation of expenses to program, development and fundraising, and administrative. Actual results could differ from those estimates.

Financial Statement Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted. Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. Permanently restricted net assets includes contributed net assets which require, by donor restrictions, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents, consisting of money market funds, amounted to \$78,509 and \$62,947 at May 31, 2018 and 2017, respectively.

The Association maintains its checking account in a commercial bank located in Northwest Ohio. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits; however, balances in excess of FDIC limits are uninsured.

Investment Securities

Investment securities represent mutual funds recorded at fair value determined based upon quoted market values of the funds. Investment securities acquired by gift or bequest are recorded at fair value on the date of gift and such amount is considered the cost of the security. Any realized gain or loss on sale of a security is determined using the cost basis of the security sold. Income from investments, including realized and unrealized gains and losses, is allocated among unrestricted and temporarily restricted net assets based on donor restrictions or the absence thereof.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities (Continued)

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Contributions Receivable

Receivables consist of contributions resulting from fund raising activities. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful receivables is primarily based on management's assessment of the collectibility of specific contributions receivable, past collection experience and the aging of the receivable. All contributions receivable or portions thereof deemed to be uncollectible are written-off to the allowance for doubtful accounts receivable.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed annually using the Association's incremental borrowing rate. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment is stated at cost or, for assets acquired by gift, at the fair market value assigned on the date of the gift. Depreciation of equipment is provided using the straight-line method based on the estimated useful lives of the individual assets which generally range from 10 to 15 years for musical instruments, 7 years for vehicles, and 3 to 10 years for office furniture and equipment. Property and equipment with a useful life of greater than one year and costing \$1,000 or more is capitalized.

Advance Ticket Sale Proceeds

Proceeds from advance ticket sales for productions of the Toledo Opera are held by the Association for the benefit of the ticket purchaser until the production is performed as advertised. Upon performance of the production, ticket revenue is recognized and the liability is reduced accordingly.

Revenue Recognition

The Association records as revenue the following types of donations when they are received unconditionally, at their fair value: cash, promises to give, certain donated services, and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions with donor-imposed restrictions met in the same reporting year are reported as unrestricted contributions without reclassification.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributed materials and services for which value is assignable are recorded as donations in-kind at their estimated fair market values at the time of receipt, and classified according to the description of the materials or services donated.

Concentrations

Three donors account for 50% of contributions receivable, net at May 31, 2018. Two donors account for 54% of contributions receivable, net at May 31, 2017. One donor accounts for 12% and 34% of total revenue, gains, and other support, in fiscal year 2018 and 2017, respectively.

Income Taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes is required. The Association determined that it was not required to record a liability related to uncertain tax positions.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expenses, including in-kind, for 2018 and 2017 were \$190,073 and \$113,044, respectively. Such amounts, which represent management and general activities, are included in production expense in the accompanying statements of activities.

Functional Allocation of Expenses

The costs of program, fundraising and management and general have been summarized on a functional basis in Note 12. Accordingly, certain costs have been allocated among the programs, fundraising and management and general.

Reclassifications

Certain reclassifications have been made to the 2017 amount to conform to the 2018 presentation.

Subsequent Events

Management evaluated subsequent events through September 12, 2018, the date the financial statements were available to be issued.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 2 INVESTMENT SECURITIES

Investment securities consisted of the following mutual funds in the Endowment Trust at May 31:

	<u>2018</u>	<u>2017</u>
Domestic Equity Funds	\$ 1,461,121	\$ 1,166,371
Fixed Income Funds	759,401	617,398
International Equity Funds	435,008	342,678
Real Estate Equity Funds	206,507	168,780
Alternative Equity Funds	181,032	147,219
Total Investment Securities	<u>\$ 3,043,069</u>	<u>\$ 2,442,446</u>

Investment return is summarized as follows for the years ended May 31:

	<u>2018</u>	<u>2017</u>
Net Realized and Unrealized Gains	\$ 153,470	\$ 164,942
Interest and Dividend Income	54,048	31,992
Total Investment Return	<u>\$ 207,518</u>	<u>\$ 196,934</u>

Withdrawals from the above investment securities are subject to the Spending Policy for Operations (Spending Policy) as described in Note 13. In 2017, the Endowment Committee approved withdrawals of approximately \$22,000 in excess of the Spending Policy. Such funds were used for Sound Vision Endowment campaign expenditures. There were no excess withdrawals approved or made in 2018.

NOTE 3 CONTRIBUTIONS RECEIVABLE

During 2016, the Association began a Sound Vision Endowment campaign to establish their long-term sustainability through an increased endowment. Pledge balances totaling \$482,866 and \$750,719 were outstanding as of May 31, 2018 and 2017, respectively. Campaign contributions of \$357,250 and \$1,599,865 were reported for the years ended May 31, 2018 and 2017, respectively. Campaign contributions are board-designated and therefore included in unrestricted net assets when received, unless specifically restricted by the donor.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 3 CONTRIBUTIONS RECEIVABLE (CONTINUED)

Contributions receivable, representing unconditional promises to give, consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Sound Vision Campaign	\$ 482,866	\$ 750,719
Other Contributions	116,376	87,511
Gross Amount Due	<u>599,242</u>	<u>838,230</u>
Less: Amount Representing Discount (5.5% for 2018 and 2017)	22,293	29,475
Less: Allowance for Doubtful Receivables	4,000	-
Net Contributions Receivable	<u>\$ 572,949</u>	<u>\$ 808,755</u>

The gross amount due of promises to give at May 31 is due as follows:

	<u>2018</u>	<u>2017</u>
Gross Amount Due in:		
Less than One Year	\$ 194,316	\$ 575,668
One to Five Years	404,926	262,562
Total	<u>\$ 599,242</u>	<u>\$ 838,230</u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31:

	<u>2018</u>	<u>2017</u>
Musical Instruments	\$ 11,672	\$ 11,672
Office Furniture and Equipment	29,167	29,167
Total	<u>40,839</u>	<u>40,839</u>
Less: Accumulated Depreciation	15,740	12,220
Net Property and Equipment	<u>\$ 25,099</u>	<u>\$ 28,619</u>

Equipment depreciation expense amounted to \$3,520 and \$753 for the years ended May 31, 2018 and 2017, respectively.

NOTE 5 BANK LINE OF CREDIT

In June 2015, the Association opened a demand bank line of credit agreement which provides maximum borrowings of \$100,000, and automatically renews annually unless the lender gives notice. Interest is at prime rate plus 1.5% (aggregating 6.25% and 5.5% at May 31, 2018 and 2017, respectively), and requires monthly interest payments. The agreement is secured by all assets of the Association, except for the Endowment Trust. Outstanding borrowings amounted to \$100,000 at May 31, 2018 and 2017.

Interest expense relating to the above note totaled \$7,931 in 2018 and \$4,185 in 2017, and is reported in administrative expenses in the statements of activities.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 6 LEASES AND OTHER COMMITMENTS

The Association leases office space on a month-to-month basis and rent expense amounted to \$14,400 and \$13,719 in 2018 and 2017, respectively. The Association also incurs monthly rentals associated with each production including costume, music, facility, and sets. Production rent expense amounted to \$168,306 in 2018 and \$145,470 in 2017.

The Association leases office equipment from unrelated parties under a noncancellable capital lease. As of May 31, 2018, the monthly lease payment under the capital lease, which expires March 2022, is \$500, with imputed interest of 2.9%. Property and equipment as of May 31, 2018 includes \$27,667 for this asset under capital lease.

Future minimum lease payments due under the capital lease are as follows for the fiscal years subsequent to May 31, 2018:

<u>Year Ending May 31,</u>	<u>Capital Lease</u>
2019	\$ 6,000
2020	6,000
2021	6,000
2022	5,500
Total	<u>23,500</u>
Less: Amount Representing Interest	1,312
Present Value of Net Minimum Lease Payments	<u><u>\$ 22,188</u></u>

NOTE 7 SPECIAL EVENT FUNDRAISING

Net special event fundraising revenue for the year ended May 31, 2018 (none in 2017) consisted of the following:

<u>May 31, 2018</u>	<u>Revenues</u>	<u>Direct Expenses</u>	<u>Net Revenues</u>
Opera Gala	<u>\$ 102,695</u>	<u>\$ 32,897</u>	<u>\$ 69,798</u>

NOTE 8 RELATED PARTY TRANSACTIONS

The Toledo Opera Guild (Guild) is a nonprofit organization founded in 1962 whose mission is to promote opera in the Toledo community and region. Guild membership is comprised of a group of men and women who volunteer their time and talents in many ways. The Guild assists the Association in many activities including hosting fundraising events whose profits support the Association. During 2018 and 2017 the Guild contributed \$31,000 and \$42,000, respectively to the Association.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Sound Vision Campaign	\$ 460,593	\$ 659,980
Opera Production	40,000	36,000
Education Outreach Program	-	1,497
Total Temporarily Restricted Net Assets	<u>\$ 500,593</u>	<u>\$ 697,477</u>

Permanently restricted net assets at May 31, 2018 and 2017 consist of gifts that are to be held in perpetuity. The endowment fund resulted from a \$1,000,000 challenge grant gifted to the Association to create an endowment fund to assist in the Association's financial stability. Under the terms of the donation agreement, the Association had until September 1997 to raise \$1,000,000 either from pledges or gifts. In 1996, the Association entered into a trust agreement with KeyBank for the establishment of the endowment fund. In 2017 the Association received another challenge grant to assist in the Association's Sound Vision Campaign goal to increase the endowment. This donation agreement supersedes the 1997 agreement, and it gives the Association until June 30, 2019, to raise another \$1,000,000 either from pledges or gifts to the Sound Vision Campaign after January 1, 2017. The Association has recorded a \$5,084 and \$90,739 pledge receivable as of May 31, 2018 and 2017, respectively, in relation to this challenge grant. Permanently restricted net assets totaled \$1,268,823 and \$1,090,739 as of May 31, 2018 and 2017, respectively. Income from the endowment fund is unrestricted.

Net assets released from restrictions consist of the following for the years ended May 31:

	<u>2018</u>	<u>2017</u>
Sound Vision Campaign Expenses	\$ 359,887	\$ 7,250
Education Outreach Program	108,146	154,595
Opera Production	565,798	419,826
Total Temporarily Restricted Net Assets Released from Restriction	<u>\$ 1,033,831</u>	<u>\$ 581,671</u>

NOTE 10 CONTRIBUTED MATERIALS AND SERVICES

The Association receives contributed materials and services (primarily consisting of advertising), the value of which is reflected in the accompanying financial statements. Management estimated that the value of contributed materials and services received was \$187,145 and \$114,154 during 2018 and 2017, respectively.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 11 FAIR VALUE MEASUREMENTS

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value. The term “fair value hierarchy” refers to the relative reliability of inputs to a fair value measurement. Generally, the lower the level of input for a fair value measurement, the more extensive the disclosure requirement.

The three-level fair value hierarchy prioritizes the inputs to valuation technique used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in active markets or markets that are not active, such as dealer or broker markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy due to the lack of observable quotes in inactive markets for those instruments during the years ended May 31, 2018 and 2017.

Certain financial assets and liabilities are measured at fair value on a recurring basis while others are measured on a nonrecurring basis. The Association had no assets or liabilities measured on a nonrecurring basis at May 31, 2018 and 2017.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of May 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	2018			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Domestic Equity Funds	\$ 1,461,121	\$ -	\$ -	\$ 1,461,121
Fixed Income Funds	759,401	-	-	759,401
International Equity Funds	435,008	-	-	435,008
Real Estate Equity Funds	206,507	-	-	206,507
Alternative Equity Funds	181,032	-	-	181,032
Total Investment Securities	\$ 3,043,069	\$ -	\$ -	\$ 3,043,069

	2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Domestic Equity Funds	\$ 1,166,371	\$ -	\$ -	\$ 1,166,371
Fixed Income Funds	617,398	-	-	617,398
International Equity Funds	342,678	-	-	342,678
Real Estate Equity Funds	168,780	-	-	168,780
Alternative Equity Funds	147,219	-	-	147,219
Total Investment Securities	\$ 2,442,446	\$ -	\$ -	\$ 2,442,446

The following is a description of the valuation methodologies used for significant instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Association did not have any securities classified as Level 2 or Level 3 at May 31, 2018 and 2017.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 12 FUNCTIONAL EXPENSE

Total expense consist of expenses relating to the following for the years ended May 31:

	2018	2017
Program	\$ 1,119,671	\$ 933,635
Fundraising	53,355	102,855
Management and General	430,504	369,748
Total Expenses	\$ 1,603,530	\$ 1,406,238

NOTE 13 ENDOWMENTS

The Association's endowments consist of funds established to support the operating expenses of the Association. Its endowments consist of both donor-restricted endowment fund and funds designated by the board of trustees (board) to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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. Consequently, the Association classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purpose of the Association and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Association.
7. The investment policies of the Association.

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 13 ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters

The Association has adopted an investment policy for endowment assets that attempts to achieve a long-term rate of return on assets that is at least 10% or better. The target rate of return has been based on the assumption that future real returns will approximate that long-term rates of return experienced for each asset class in the investment policy. Capital preservation is emphasized in periods of inflation, economic uncertainty, or declining investment values.

Spending Policy

In September 1999, the Association approved a spending policy to determine an annual amount to be withdrawn from the cumulative return of investment funds to support the activities of the operating fund. The spending policy, which was restated September 15, 2009, and effective June 1, 2009, is also designed to provide support for the operations of future years and to offset potential market declines.

It is in the policy of the Association to make a withdrawal of 5% of the average market value of the investment fund determined quarterly and averaged over the three years immediately preceding the fiscal year for current program services/operations.

In 2016, the endowment committee voted to temporarily amend the spending policy effective June 30, 2015, to distribute 5% of the current quarter ending, and the rolling average thereon, until the endowment balance reached \$1,500,000. In January 2017, the endowment committee terminated the temporary amendment. The \$17,510 withheld during the special distribution period was being distributed equally over the six quarters, which began the quarter-end December 31, 2016 and ended the quarter-end March 31, 2018.

The Association had an unrestricted deficit in net assets of \$230,100 and \$152,838 as of May 31, 2018 and 2017, respectively.

Strategies Employed for Achieving Objectives

Based on the Association's time horizon, risk tolerance, performance expectations, and asset class preferences, an efficient or optimal portfolio was identified. The Association targets a diversified asset allocation that has a balance of both fixed income and equity securities to achieve its long-term objective within prudent risk constraints.

Endowment net asset composition by type of fund as of May 31, 2018 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated Endowment Funds	\$ 1,852,755	\$ -	\$ -	\$ 1,852,755
Donor-Restricted Endowment Funds	-	-	1,268,823	1,268,823
Total Endowment Funds	<u>\$ 1,852,755</u>	<u>\$ -</u>	<u>\$ 1,268,823</u>	<u>\$ 3,121,578</u>

**TOLEDO OPERA ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 13 ENDOWMENTS (CONTINUED)

Strategies Employed for Achieving Objectives (Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2018 follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 1,414,654	\$ -	\$ 1,090,739	\$ 2,505,393
Investment Return:				
Net Realized and Unrealized Gains	89,115	64,355	-	153,470
Interest and Dividend Income	31,384	22,664	-	54,048
Total Investment Return	<u>120,499</u>	<u>87,019</u>	<u>-</u>	<u>207,518</u>
Contributions	328,933	-	178,084	507,017
Appropriated for Expenditure	<u>(11,331)</u>	<u>(87,019)</u>	<u>-</u>	<u>(98,350)</u>
Net Assets - End of Year	<u>\$ 1,852,755</u>	<u>\$ -</u>	<u>\$ 1,268,823</u>	<u>\$ 3,121,578</u>

Endowment net asset composition by type of fund as of May 31, 2017 follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 1,414,654	\$ -	\$ -	\$ 1,414,654
Donor-Restricted Endowment Funds	-	-	1,090,739	1,090,739
Total Endowment Funds	<u>\$ 1,414,654</u>	<u>\$ -</u>	<u>\$ 1,090,739</u>	<u>\$ 2,505,393</u>

Changes in endowment net assets for the fiscal year ended May 31, 2017 follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 235,335	\$ -	\$ 1,000,000	\$ 1,235,335
Investment Return:				
Net Realized and Unrealized Gains	-	164,942	-	164,942
Interest and Dividend Income	-	31,992	-	31,992
Total Investment Return	<u>-</u>	<u>196,934</u>	<u>-</u>	<u>196,934</u>
Contributions	1,225,736	-	90,739	1,316,475
Appropriated for Expenditure	<u>(46,417)</u>	<u>(196,934)</u>	<u>-</u>	<u>(243,351)</u>
Net Assets - End of Year	<u>\$ 1,414,654</u>	<u>\$ -</u>	<u>\$ 1,090,739</u>	<u>\$ 2,505,393</u>

**TOLEDO OPERA ASSOCIATION
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED MAY 31, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>2018</u>	<u>2017</u>
Production	\$ 593,865	\$ 487,026
Advertising	190,073	113,044
Production Rentals	168,306	145,470
Travel	99,000	64,680
Education Outreach	135,668	154,595
Supplies	20,378	12,475
Printing	21,285	21,024
Postage	29,342	8,402
Payroll Taxes and Fringe Benefits	17,693	8,393
Miscellaneous	<u>34,134</u>	<u>31,570</u>
Total Operating Expenses	<u><u>\$ 1,309,744</u></u>	<u><u>\$ 1,046,679</u></u>

TOLEDO OPERA ASSOCIATION
SCHEDULES OF DEVELOPMENT AND FUNDRAISING EXPENSES
YEARS ENDED MAY 31, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Salaries	\$ 21,407	\$ 20,214
Sound Vision Campaign Expenses	-	25,941
Membership Marketing	28,407	51,179
Professional Fees and Contract Services	120	1,731
Advertising	3,293	3,616
Printing	<u>128</u>	<u>174</u>
 Total Development and Fundraising Expenses	 <u>\$ 53,355</u>	 <u>\$ 102,855</u>

TOLEDO OPERA ASSOCIATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED MAY 31, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Salaries	\$ 117,658	\$ 130,135
Payroll Taxes and Fringe Benefits	18,588	18,239
Office and Equipment Rent and Maintenance	12,966	15,287
Professional Fees and Contract Services	26,424	28,360
Depreciation	3,520	753
Bank and Credit Card Fees	19,682	13,562
Telephone and Internet	3,124	2,795
Taxes and Licenses	5,806	9,375
Insurance	7,968	(2,501)
Supplies	2,922	10,407
Printing	1,718	1,815
Membership Dues and Subscriptions	935	4,619
Interest	8,452	4,185
Postage	2,539	2,665
Occupancy	373	124
Entertainment	3,027	5,549
Bad Debt Expense	4,000	4,000
Miscellaneous, Net	729	7,335
	<u> </u>	<u> </u>
Total Administrative Expenses	<u>\$ 240,431</u>	<u>\$ 256,704</u>



Investment advisory services are offered through CliftonLarsonAllen
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