

**VIRGINIA OPERA ASSOCIATION, INC.  
AND VIRGINIA OPERA FOUNDATION**

**COMBINED FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2015 and 2014*

*And Report of Independent Auditor*

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION**  
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## **Report of Independent Auditor**

The Board of Directors  
Virginia Opera Association, Inc.  
and Virginia Opera Foundation  
Norfolk, Virginia

We have audited the accompanying combined financial statements of Virginia Opera Association, Inc. (the "Association") and the Virginia Opera Foundation (the "Foundation"), which comprised the combined statement of financial position as of June 30, 2015, and 2014 the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Opera Association, Inc. and the Virginia Opera Foundation as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended accordance with accounting principles generally accepted in the United States of America.

**Going Concern**

The accompanying combined financial statements have been prepared assuming that the Association and the Foundation will continue as a going concern. As discussed in Note 2, the Association has a working capital deficit resulting from previous operating losses, that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Cherry Bekaert LLP*

Virginia Beach, Virginia  
February 19, 2016

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2015 AND 2014*

| <b>ASSETS</b>                                    | <b>2015</b>        | <b>2014</b>        |
|--|--------------------|--------------------|
| Current Assets:                                  |                    |                    |
| Cash   | \$ 44,790          | \$ 76,415          |
| Current portion of contributions receivable, net | 247,810            | 178,773            |
| Accounts receivable                              | 12,302             | 5,945              |
| Inventory  | 5,592              | 5,592              |
| Prepaid expenses                                 | 114,279            | 87,659             |
| Total Current Assets                             | <u>424,773</u>     | <u>354,384</u>     |
| Investments                                      | 5,770              | 6,361              |
| Property and equipment, net                      | 97,990             | 125,756            |
| Other noncurrent assets                          | 43,144             | 45,180             |
| Total Assets                                     | <u>\$ 571,677</u>  | <u>\$ 531,681</u>  |
| <br><b>LIABILITIES AND NET ASSETS (DEFICIT)</b>  |                    |                    |
| Current Liabilities:                             |                    |                    |
| Accounts payable                                 | \$ 1,042,644       | \$ 1,129,743       |
| Accrued salaries and withholdings                | 405,056            | 178,087            |
| Accrued vacation                                 | 32,167             | 34,953             |
| Deferred revenue                                 | 610,498            | 518,937            |
| Current Liabilities                              | <u>2,090,365</u>   | <u>1,861,720</u>   |
| Net Assets (Deficit):                            |                    |                    |
| Unrestricted                                     | (2,310,677)        | (2,481,649)        |
| Temporarily restricted                           | 788,985            | 1,148,606          |
| Permanently restricted                           | 3,004              | 3,004              |
| Total Net Assets (Deficit)                       | <u>(1,518,688)</u> | <u>(1,330,039)</u> |
| Total Liabilities and Net Assets (Deficit)       | <u>\$ 571,677</u>  | <u>\$ 531,681</u>  |

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION**  
**COMBINED STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2015

|   | <u>Unrestricted</u>   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|---|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Revenues:                               |                       |                                   |                                   |                       |
| Program Revenue:                        |                       |                                   |                                   |                       |
| Mainstage subscriptions                 | \$ 595,963            | \$ -                              | \$ -                              | \$ 595,963            |
| Mainstage single tickets                | 522,498               | -                                 | -                                 | 522,498               |
| Mainstage touring                       | 337,046               | -                                 | -                                 | 337,046               |
| Education programs                      | 93,176                | -                                 | -                                 | 93,176                |
| Total Program Revenue                   | <u>1,548,683</u>      | <u>-</u>                          | <u>-</u>                          | <u>1,548,683</u>      |
| Other Revenue:                          |                       |                                   |                                   |                       |
| Production sales and rentals            | 102,823               | -                                 | -                                 | 102,823               |
| Merchandise and concessions, net        | 2,368                 | -                                 | -                                 | 2,368                 |
| Program advertising                     | 37,705                | -                                 | -                                 | 37,705                |
| Fundraising special events, net         | 259,542               | -                                 | -                                 | 259,542               |
| Other income                            | 49,000                | -                                 | -                                 | 49,000                |
| Total Other Revenue                     | <u>451,438</u>        | <u>-</u>                          | <u>-</u>                          | <u>451,438</u>        |
| Contributed Revenue:                    |                       |                                   |                                   |                       |
| Individual                              | 1,124,608             | 586,037                           | -                                 | 1,710,645             |
| Corporate                               | 317,311               | -                                 | -                                 | 317,311               |
| Grants                                  | 528,956               | 202,948                           | -                                 | 731,904               |
| Foundations                             | 544,035               | -                                 | -                                 | 544,035               |
| Total Contributed Revenue               | <u>2,514,910</u>      | <u>788,985</u>                    | <u>-</u>                          | <u>3,303,895</u>      |
| Net assets released from restrictions   | <u>1,148,606</u>      | <u>(1,148,606)</u>                | <u>-</u>                          | <u>-</u>              |
| Total Revenues                          | <u>5,663,637</u>      | <u>(359,621)</u>                  | <u>-</u>                          | <u>5,304,016</u>      |
| Expenses:                               |                       |                                   |                                   |                       |
| Program Services:                       |                       |                                   |                                   |                       |
| Mainstage production                    | 3,019,686             | -                                 | -                                 | 3,019,686             |
| Education                               | 231,793               | -                                 | -                                 | 231,793               |
| Marketing and box office                | 426,156               | -                                 | -                                 | 426,156               |
| Production marketing                    | 190,168               | -                                 | -                                 | 190,168               |
| Harrison Opera House                    | 231,694               | -                                 | -                                 | 231,694               |
| Total Program Services                  | <u>4,099,497</u>      | <u>-</u>                          | <u>-</u>                          | <u>4,099,497</u>      |
| Support Services:                       |                       |                                   |                                   |                       |
| Management and general                  | 805,088               | -                                 | -                                 | 805,088               |
| Development and fundraising             | 588,080               | -                                 | -                                 | 588,080               |
| Total Support Services                  | <u>1,393,168</u>      | <u>-</u>                          | <u>-</u>                          | <u>1,393,168</u>      |
| Total Expenses                          | <u>5,492,665</u>      | <u>-</u>                          | <u>-</u>                          | <u>5,492,665</u>      |
| Changes in net assets                   | 170,972               | (359,621)                         | -                                 | (188,649)             |
| Net assets (deficit), beginning of year | (2,481,649)           | 1,148,606                         | 3,004                             | (1,330,039)           |
| Net assets (deficit), end of year       | <u>\$ (2,310,677)</u> | <u>\$ 788,985</u>                 | <u>\$ 3,004</u>                   | <u>\$ (1,518,688)</u> |

The accompanying notes to the combined financial statements are an integral part of these statements.

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION**  
**COMBINED STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

|   | <u>Unrestricted</u>   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|---|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b>Revenues:</b>                        |                       |                                   |                                   |                       |
| Program Revenue:                        |                       |                                   |                                   |                       |
| Mainstage subscriptions                 | \$ 679,947            | \$ -                              | \$ -                              | \$ 679,947            |
| Mainstage single tickets                | 363,147               | -                                 | -                                 | 363,147               |
| Mainstage touring                       | 343,934               | -                                 | -                                 | 343,934               |
| Education programs                      | 109,507               | -                                 | -                                 | 109,507               |
| Total Program Revenue                   | <u>1,496,535</u>      | <u>-</u>                          | <u>-</u>                          | <u>1,496,535</u>      |
| Other Revenue:                          |                       |                                   |                                   |                       |
| Production sales and rentals            | 128,785               | -                                 | -                                 | 128,785               |
| Merchandise and concessions, net        | 9,259                 | -                                 | -                                 | 9,259                 |
| Program advertising                     | 23,464                | -                                 | -                                 | 23,464                |
| Investment loss, net                    | (272)                 | -                                 | -                                 | (272)                 |
| Fundraising special events, net         | 109,809               | -                                 | -                                 | 109,809               |
| Other income                            | 39,658                | -                                 | -                                 | 39,658                |
| Total Other Revenue                     | <u>310,703</u>        | <u>-</u>                          | <u>-</u>                          | <u>310,703</u>        |
| Contributed Revenue:                    |                       |                                   |                                   |                       |
| Individual                              | 812,483               | 1,148,606                         | -                                 | 1,961,089             |
| Corporate                               | 353,406               | -                                 | -                                 | 353,406               |
| Grants                                  | 507,446               | -                                 | -                                 | 507,446               |
| Foundations                             | 444,401               | -                                 | -                                 | 444,401               |
| Total Contributed Revenue               | <u>2,117,736</u>      | <u>1,148,606</u>                  | <u>-</u>                          | <u>3,266,342</u>      |
| Net assets released from restrictions   | 932,382               | (931,048)                         | (1,334)                           | -                     |
| Total Revenues                          | <u>4,857,356</u>      | <u>217,558</u>                    | <u>(1,334)</u>                    | <u>5,073,580</u>      |
| <b>Expenses:</b>                        |                       |                                   |                                   |                       |
| Program Services:                       |                       |                                   |                                   |                       |
| Mainstage production                    | 3,371,577             | -                                 | -                                 | 3,371,577             |
| Education                               | 230,868               | -                                 | -                                 | 230,868               |
| Marketing and box office                | 335,311               | -                                 | -                                 | 335,311               |
| Set rentals                             | 98,644                | -                                 | -                                 | 98,644                |
| Production marketing                    | 186,909               | -                                 | -                                 | 186,909               |
| Harrison Opera House                    | 251,110               | -                                 | -                                 | 251,110               |
| Total Program Services                  | <u>4,474,419</u>      | <u>-</u>                          | <u>-</u>                          | <u>4,474,419</u>      |
| Support Services:                       |                       |                                   |                                   |                       |
| Management and general                  | 751,505               | -                                 | -                                 | 751,505               |
| Development and fundraising             | 356,551               | -                                 | -                                 | 356,551               |
| Total Support Services                  | <u>1,108,056</u>      | <u>-</u>                          | <u>-</u>                          | <u>1,108,056</u>      |
| Total Expenses                          | <u>5,582,475</u>      | <u>-</u>                          | <u>-</u>                          | <u>5,582,475</u>      |
| Changes in net assets                   | (725,119)             | 217,558                           | (1,334)                           | (508,895)             |
| Net assets (deficit), beginning of year | (1,756,530)           | 931,048                           | 4,338                             | (821,144)             |
| Net assets (deficit), end of year       | <u>\$ (2,481,649)</u> | <u>\$ 1,148,606</u>               | <u>\$ 3,004</u>                   | <u>\$ (1,330,039)</u> |

The accompanying notes to the combined financial statements are an integral part of these statements.

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED STATEMENTS OF CASH FLOWS**

*YEARS ENDED JUNE 30, 2015 AND 2014*

|   | <u>2015</u>      | <u>2014</u>      |
|---|------------------|------------------|
| <b>Cash flows from operating activities:</b>  |                  |                  |
| Change in net assets  | \$ (188,649)     | \$ (508,895)     |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                  |                  |
| Depreciation and amortization   | 65,063           | 109,858          |
| Uncollectible contributions   | -                | (23,873)         |
| Changes to assets and liabilities:  |                  |                  |
| Contributions receivable  | (69,037)         | 150,992          |
| Accounts receivable   | (6,357)          | 20,189           |
| Prepaid expenses  | (26,620)         | 9,405            |
| Accounts payable and accrued expenses   | 137,084          | 409,772          |
| Deferred revenue  | 91,561           | (136,537)        |
| Net cash provided by operating activities   | <u>3,045</u>     | <u>30,911</u>    |
| <b>Cash flows from investing activities:</b>  |                  |                  |
| Purchase of investments   | (2,409)          | (68,736)         |
| Proceeds from sale of investments   | 3,000            | 70,769           |
| Purchase of property and equipment  | (14,061)         | -                |
| Additions to other noncurrent assets  | <u>(21,200)</u>  | <u>(21,820)</u>  |
| Net cash used by investing activities   | <u>(34,670)</u>  | <u>(19,787)</u>  |
| <b>Cash flows from financing activities:</b>  |                  |                  |
| Payments on notes payable   | -                | (5,962)          |
| Net cash used by financing activities   | <u>-</u>         | <u>(5,962)</u>   |
| Net increase (decrease) in cash   | (31,625)         | 5,162            |
| Cash, beginning of year   | <u>76,415</u>    | <u>71,253</u>    |
| Cash, end of year   | <u>\$ 44,790</u> | <u>\$ 76,415</u> |
| <b>Supplemental disclosure of cash flow information:</b>                                    |                  |                  |
| Cash paid for interest  | <u>\$ -</u>      | <u>\$ 877</u>    |



# VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION COMBINED NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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## **Note 1—Nature of operations and summary of significant accounting policies**

*Nature of Organization* - The Virginia Opera Association, Inc. (the "Association") is a nonprofit organization founded in 1974 with operating offices in Norfolk and Richmond, Virginia. The vision of the Association is to enrich lives through opera. The mission of the Association is to create high quality productions of a broad range of opera, provide training to qualified persons in the production and performance of opera, promote appreciation and understanding of opera through performances; education and community outreach, and assure fiscal stability. In March of 1994, by unanimous vote of the Virginia General Assembly, the Association was named "The Official Opera Company of the Commonwealth of Virginia."

The Virginia Opera Foundation (the "Foundation") was founded in December 1992 specifically for the benefit of and to carry out the purposes of the Association.

*Principles of Combination* - The accompanying combined financial statements include the accounts of the Virginia Opera Association and the Virginia Opera Foundation (collectively the "Organization"). The combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. The Association and Foundation are under common control and management. Intercompany balances and transactions have been eliminated in combination.

*Basis of Financial Presentation* - The Association's and the Foundation's combined financial statements are prepared on the accrual basis of accounting. Revenues are recorded as income in the fiscal year in which the related productions are held. These combined financial statements have been prepared to focus on the Association and Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. A portion of unrestricted net assets is designated by the Board of Directors for specific purposes and does not represent a donor-imposed restriction.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Association or the Foundation and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association or the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period assets are acquired or placed in service. Donor restricted contributions, whose restrictions are met in the same reporting period, are recorded as unrestricted net assets.

*Contributions Receivable* - Contributions receivable are recognized as revenue in the year the promise is made by the donor. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history and type of contribution. Contributions of assets other than cash are recorded at their estimated fair value.

# VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION

## COMBINED NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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### Note 1—Nature of operations and summary of significant accounting policies (continued)

*Contributed Materials and Services* - Contributed materials and services are reflected in the combined financial statements at estimated fair value of materials provided and services performed. For the years ended June 30, 2015 and 2014, the Association received donated materials and services totaling \$-0- and \$894, respectively.

*Revenues* - Revenue from subscriptions and ticket sales is recognized in the year in which the performances occur and is presented net of admissions taxes. Revenues from merchandise sales and concessions are presented net of sales and other taxes.

*Inventory* - Inventory includes items held for sale in the gift shop and are stated at the lower of cost or market with cost determined on the first-in, first-out (FIFO) basis.

*Prepaid Expenses* - Prepaid expenses represent items paid for future performances.

*Investments* - Investments are stated at fair value and consist of cash and cash equivalents. Cash and cash equivalents that are held as part of a long-term strategy are included in investments. The Association and Foundation carry their investments in cash and cash equivalents at cost, which approximates fair value.

*Property and Equipment* - Property and equipment are stated at cost or fair value at the date of gift if acquired by gift. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

|                        | <u>Life</u>   |
|------------------------|---------------|
| Leasehold improvements | 10 Years      |
| Equipment and software | 3 to 10 Years |

*Other Noncurrent Assets* - Included in other noncurrent assets is the capitalized portion of opera sets, which are used for future shows or are rented to others. The Association's policy is to expense 80% of the cost of constructing sets and capitalize 20% to be amortized over a life of four years. Amortization expense related to such sets totaled \$23,236 and \$21,032 for the years ended June 30, 2015 and 2014, respectively.

*Deferred Revenue* - Deferred revenue consists primarily of ticket sales and subscriptions for future seasons' shows.

*Program Expenses* - The Association has two categories of program expenses - main stage production expenses and education expenses. Main stage production expenses are those that relate to the production of operas performed in the Harrison Opera House, Norfolk, Virginia; Richmond, Virginia and the Northern Virginia area. Education expenses are those that relate to the Education Touring Program that conducts in-school and community performances and the Community Outreach Program.

*Volunteer Services* - A number of volunteers have made contributions of time to the Association and Foundation's programs and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained in the accounting standards and, accordingly, is not reflected in the accompanying combined financial statements.

# VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION

## COMBINED NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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### **Note 1—Nature of operations and summary of significant accounting policies (continued)**

*Income Taxes* - The Association and Foundation have each been recognized by the Internal Revenue Service (“IRS”) as tax exempt under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association’s tax exempt purpose is subject to taxation as unrelated business income. The Association is subject to unrelated business taxable income. Both the Association and Foundation believe they have appropriate support for any tax positions taken and, as such, do not have uncertain tax positions that are material to the combined financial statements. Federal tax returns (Form 990 and 990-T) for both the Association and Foundation for the period from June 30, 2012, 2013, 2014 and the year ended June 30, 2015 are subject to examination by the IRS, generally three years after they were filed.

*Cash* - For purposes of the statement of cash flows, the Association and Foundation consider all unrestricted, highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

*Use of Estimates* - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Association and Foundation to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingencies at the date of the combined financial statements, and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

### **Note 2—Going concern**

As indicated in the accompanying combined financial statements, the Organization incurred a decrease in net assets of \$188,649 during the year ended June 30, 2015. As of that date, the Organization’s current liabilities exceeded its current assets by \$1,665,592 and its total liabilities exceeded its total assets by \$1,518,688. Those factors create an uncertainty about the Organization’s ability to continue as a going concern. The Organization has a plan of continuing the progress of recent seasons in general operating (unrestricted net assets) improvement. The change in unrestricted net assets in FY 2013 (reported in the immediate prior audited financial statement) was (\$1,991,311); the change in unrestricted net assets in FY 2014 was (\$725,119); and the change in unrestricted net assets in FY 2015 (the current reporting period) was \$170,972. The main reason for this improvement is management’s decision to cut expenses, delay expenditures and seek additional sources of funding.

Plans for continuing financial progress by significantly lowering accounts payable and other current liabilities primarily include the continuation of extraordinary fundraising (the multi-year Next Generation Campaign) geared towards debt relief and negotiation of payments for less than balances due from vendors. A balance of ensuring that total liabilities do not exceed total assets by more than the level of deferred revenue is sought as part of this plan.

Management’s success in funding the operation, during a continuing cash flow challenge, has kept the Organization operating and meeting its current obligations, even though payments are sometimes delayed. The organization plans to additionally build an internal cash reserve through the budgeting of regular operating surpluses and generating higher levels of earned revenue.

The ability of the Organization to continue as a going concern is dependent on the success of these plans. The combined financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 3—Contributions receivable**

Contributions receivable at June 30, 2015 and 2014 consisted of the following:

|                      | <u>2015</u>      | <u>2014</u>      |
|----------------------|------------------|------------------|
| Less than one year   | \$ 247,810       | \$ 178,773       |
| One to five years    | -                | -                |
|                      | <u>247,810</u>   | <u>178,773</u>   |
| Less current portion | <u>(247,810)</u> | <u>(178,773)</u> |
| Long-term portion    | <u>\$ -</u>      | <u>\$ -</u>      |

The allowance for uncollectible contributions totaled \$0 for 2015 and 2014.

**Note 4—Investments**

Investments at June 30, 2015 and 2014 consisted of the following:

|                           | <u>2015</u>     | <u>2014</u>     |
|---------------------------|-----------------|-----------------|
| Cash and cash equivalents | <u>\$ 5,770</u> | <u>\$ 6,361</u> |

Investment loss for the year ended June 30, 2015 and 2014 consisted of the following:

|                     | <u>2015</u> | <u>2014</u>     |
|---------------------|-------------|-----------------|
| Investment expenses | <u>\$ -</u> | <u>\$ (272)</u> |

**Note 5—Property and equipment**

Property and equipment at June 30, 2015 and 2014 consisted of the following:

|  | <u>2015</u>        | <u>2014</u>        |
|--|--------------------|--------------------|
| Leasehold improvements                         | \$ 4,704,456       | \$ 4,704,456       |
| Equipment and software                         | 1,064,600          | 1,050,539          |
|  | <u>5,769,056</u>   | <u>5,754,995</u>   |
| Less accumulated depreciation and amortization | <u>(5,671,066)</u> | <u>(5,629,239)</u> |
|  | <u>\$ 97,990</u>   | <u>\$ 125,756</u>  |

Depreciation totaled \$41,827 and \$88,826 for the years ended June 30, 2015 and 2014, respectively.

# VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION

## COMBINED NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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### Note 6—Endowment funds

The endowment of the Association and Foundation consists of individual investment funds established from permanently restricted gifts for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting standards, 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 Association and Foundation have 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. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified to permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the factors listed on the following page in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund.
- (2) The purposes of the Association and Foundation, 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 and Foundation.
- (7) The investment policies of the Association and Foundation.

*Endowment Loans and Impairment* - During 2013, the Board of the Association approved the use of various permanently restricted investments to pay off all outstanding debt, for which it was secured. Additionally, the Association and the Foundation Boards authorized the use of permanently restricted investments to pay for operating deficits incurred during the year. These funds were considered loans to be repaid; however, the Association has been unable to remain current with the repayment terms. These loans between the endowment and the Association are considered permanently impaired.

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 AND 2014

**Note 6—Endowment funds (continued)**

*Endowment Fund Activity and Net Asset Composition* - Activity in endowment funds at June 30, 2015 and 2014 consisted of the following:

|                           | <b>June 30, 2015</b> |                                   |                                   |              |
|---------------------------|----------------------|-----------------------------------|-----------------------------------|--------------|
|                           | <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Beginning endowment funds | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |
| Ending endowment funds    | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |

  

|  | <b>June 30, 2014</b> |                                   |                                   |              |
|--|----------------------|-----------------------------------|-----------------------------------|--------------|
|  | <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Beginning endowment funds                      | \$ -                 | \$ -                              | \$ 4,338                          | \$ 4,338     |
| Add new endowments                             | 68,736               | -                                 | -                                 | 68,736       |
| Less transfers of permanently restricted funds | -                    | -                                 | (1,334)                           | (1,334)      |
| Less funds used in operations                  | (68,742)             | -                                 | -                                 | (68,742)     |
| Add endowment earnings                         | 6                    | -                                 | -                                 | 6            |
| Ending endowment funds                         | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |

Endowment net asset composition by type of fund at June 30, 2015 and 2014 consisted of the following:

|                                  | <b>June 30, 2015</b> |                                   |                                   |              |
|----------------------------------|----------------------|-----------------------------------|-----------------------------------|--------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Donor-restricted endowment funds | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |
| Total funds                      | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |

  

|                                  | <b>June 30, 2014</b> |                                   |                                   |              |
|----------------------------------|----------------------|-----------------------------------|-----------------------------------|--------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Donor-restricted endowment funds | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |
| Total funds                      | \$ -                 | \$ -                              | \$ 3,004                          | \$ 3,004     |

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 7—Leases**

The Association is currently a lessee under various non-cancellable and monthly operating leases for space to house the administrative offices and performance space in the Harrison Opera House, Norfolk, Virginia; administrative offices in Richmond, Virginia and set production and storage in Portsmouth, Virginia. In addition, the Association was a lessee under several office equipment and automobile operating leases, which expired at various times through July 2014. Rent expense was approximately \$191,034 and \$256,671 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under non-cancellable leases are as follows:

|       |                   |
|-------|-------------------|
| 2016  | \$ 78,636         |
| 2017  | 78,636            |
| 2018  | 75,930            |
| 2019  | <u>5,200</u>      |
| Total | <u>\$ 238,402</u> |

**Note 8—Concentrations of credit risk**

The Association and Foundation place their cash and cash equivalents on deposit with financial institutions in the United States. During the year, the Association and Foundation from time to time may have had amounts on deposit in excess of the insured limits.

**Note 9—Merchandising and concessions**

Merchandising and concessions for the years ended June 30, 2015 and 2014 consisted of the following:

|           | <u>June 30, 2015</u> |                 |                 |
|-----------|----------------------|-----------------|-----------------|
|           | <u>Revenue</u>       | <u>Expense</u>  | <u>Net</u>      |
| Gift shop | <u>\$ 9,105</u>      | <u>6,737</u>    | <u>\$ 2,368</u> |
|           | <u>June 30, 2014</u> |                 |                 |
|           | <u>Revenue</u>       | <u>Expense</u>  | <u>Net</u>      |
| Gift shop | <u>\$ 14,667</u>     | <u>\$ 5,408</u> | <u>\$ 9,259</u> |

**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 10—Fundraising special events**

Components of unrestricted fundraising special events for the years ended June 30, 2015 and 2014 consisted of the following:

|               | <b>June 30, 2015</b> |                  |                   |
|---------------|----------------------|------------------|-------------------|
|               | <b>Revenue</b>       | <b>Expense</b>   | <b>Net</b>        |
| Norfolk Gala  | \$ 122,179           | \$ 26,697        | \$ 95,482         |
| Richmond Gala | 143,827              | 31,427           | 112,400           |
| Other         | 55,990               | 4,330            | 51,660            |
| Total         | <u>\$ 321,996</u>    | <u>\$ 62,454</u> | <u>\$ 259,542</u> |

  

|                            | <b>June 30, 2014</b> |                  |                   |
|----------------------------|----------------------|------------------|-------------------|
|                            | <b>Revenue</b>       | <b>Expense</b>   | <b>Net</b>        |
| Norfolk Gala               | \$ 78,125            | \$ 25,887        | \$ 52,238         |
| Richmond "un-Gala" Phantom | 108,597              | 51,026           | 57,571            |
| Total                      | <u>\$ 186,722</u>    | <u>\$ 76,913</u> | <u>\$ 109,809</u> |

**Note 11—Pension plan**

The Association terminated its 403(b) plan as of December 31, 2009 and adopted a 401(k) plan which allows for discretionary employer-matching contributions. For the years ended June 30, 2015 and 2014, no contributions were made by the employer.

**Note 12—Temporarily restricted net assets**

Temporarily restricted net assets at June 30, 2015 and 2014 consisted of the following:

|                             | <b>2015</b>       | <b>2014</b>         |
|-----------------------------|-------------------|---------------------|
| Future season contributions | <u>\$ 788,985</u> | <u>\$ 1,148,606</u> |



**VIRGINIA OPERA ASSOCIATION, INC. AND VIRGINIA OPERA FOUNDATION  
COMBINED NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 13—Permanently restricted net assets**

Permanently restricted net assets at June 30, 2015 and 2014 include permanent endowments of the Foundation, which have been loaned to the Association and used to repay debt and fund operating losses. These loans have been considered permanently impaired. The impairment loss is reflected on the combined statements of activities as net assets released from restrictions. The permanently restricted funds consisted of the following:

|                                   | <u>2015</u>        | <u>2014</u>        |
|-----------------------------------|--------------------|--------------------|
| Jean O. Chrysler Endowment        | \$ 1,289,019       | \$ 1,289,019       |
| Carol S. Keenan Endowment         | 1,109,371          | 1,109,371          |
| Virginia Opera Foundation         | 537,477            | 537,477            |
| Inge Schumacher Student Endowment | 261,957            | 261,957            |
| Artist Patrons Program            | <u>251,750</u>     | <u>251,750</u>     |
|                                   | 3,449,574          | 3,449,574          |
| Less impaired loans               | <u>(3,446,570)</u> | <u>(3,446,570)</u> |
|                                   | <u>\$ 3,004</u>    | <u>\$ 3,004</u>    |

**Note 14—Commitments and contingencies**

Certain commitments are made to artists, directors, and musicians in advance of the upcoming season based on the Opera's planned repertoire.

The Association is contingently liable for amounts borrowed from the Foundation's permanently restricted endowments in the amount of \$3,446,570 as of June 30, 2015 and 2014. These loan amounts are considered to be impaired.

**Note 15—Subsequent events**

The Association has evaluated all subsequent events through February 19, 2016 the date which the combined financial statements were available to be issued.

In October 2015, the Association obtained a secured line of credit with TowneBank with a limit of \$255,000 and a variable interest rate at one month LIBOR, plus 2.25%.