

TULSA OPERA, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

TULSA OPERA, INC.
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Independent Auditor's Report

To the Board of Directors
Tulsa Opera, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Tulsa Opera, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Tulsa Opera, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morse & Co., PLLC

Tulsa, Oklahoma
September 5, 2014

TULSA OPERA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

	<u>Operating</u>	<u>Endowment</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 51,830	\$ -	\$ 51,830
Accounts receivable	5,994	-	5,994
Contributions and grants receivable	51,870	-	51,870
Deferred production costs and other prepaid expenses	9,605	-	9,605
Property and equipment	871,305	-	871,305
Accumulated depreciation	(545,012)	-	(545,012)
Endowment investments	-	3,005,257	3,005,257
Beneficial interest in assets held by others	-	275,083	275,083
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 445,592</u></u>	<u><u>\$ 3,280,340</u></u>	<u><u>\$ 3,725,932</u></u>

LIABILITIES AND NET ASSETS

Liabilities			
Accounts payable and accrued expenses	\$ 73,923	\$ -	\$ 73,923
Deferred revenues	206,688	-	206,688
Line of credit	415,000	-	415,000
Note payable	553,532	-	553,532
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,249,143</u>	<u>-</u>	<u>1,249,143</u>
Net assets			
Unrestricted	(885,169)	1,769,872	884,703
Temporarily restricted	79,510	-	79,510
Permanently restricted	2,108	1,510,468	1,512,576
	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>(803,551)</u>	<u>3,280,340</u>	<u>2,476,789</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$ 445,592</u></u>	<u><u>\$ 3,280,340</u></u>	<u><u>\$ 3,725,932</u></u>

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

TULSA OPERA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

	<u>Operating</u>	<u>Endowment</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 14,011	\$ -	\$ 14,011
Accounts receivable	5,921	-	5,921
Contributions and grants receivable	127,008	-	127,008
Deferred production costs and other prepaid expenses	48,551	-	48,551
Property and equipment	1,039,568	-	1,039,568
Accumulated depreciation	(536,361)	-	(536,361)
Endowment investments	-	2,902,593	2,902,593
Beneficial interest in assets held by others	-	257,778	257,778
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 698,698</u>	<u>\$ 3,160,371</u>	<u>\$ 3,859,069</u>

LIABILITIES AND NET ASSETS

Liabilities			
Accounts payable and accrued expenses	\$ 31,690	\$ -	\$ 31,690
Deferred revenues	266,738	-	266,738
Line of credit	310,000	-	310,000
Note payable	573,565	-	573,565
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,181,993</u>	<u>-</u>	<u>1,181,993</u>
Net assets			
Unrestricted	(794,403)	1,649,903	855,500
Temporarily restricted	309,000	-	309,000
Permanently restricted	2,108	1,510,468	1,512,576
	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>(483,295)</u>	<u>3,160,371</u>	<u>2,677,076</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 698,698</u>	<u>\$ 3,160,371</u>	<u>\$ 3,859,069</u>

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

TULSA OPERA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions and grants	\$ 909,679	\$ 300,008	\$ -	\$ 1,209,687
Subscriptions and ticket sales	456,752	-	-	456,752
Special events	268,180	-	-	268,180
Gain (loss) on investments (realized and unrealized), net of investment advisory fees of \$24,980	343,461	-	-	343,461
Dividends and interest	82,097	-	-	82,097
Loss on disposal of assets	(13,035)	-	-	(13,035)
Other	20,049	-	-	20,049
Net assets released from restriction	334,008	(334,008)	-	-
Total Revenue	<u>2,401,191</u>	<u>(34,000)</u>	<u>-</u>	<u>2,367,191</u>
Expenses				
Artistic productions and education	1,500,748	-	-	1,500,748
Management and general	325,454	-	-	325,454
Marketing and ticket office	219,151	-	-	219,151
Development	175,068	-	-	175,068
Special events	122,130	-	-	122,130
Sales tax	29,437	-	-	29,437
Impairment loss	-	195,490	-	195,490
Total Expenses	<u>2,371,988</u>	<u>195,490</u>	<u>-</u>	<u>2,567,478</u>
Increase (Decrease) in Net Assets	29,203	(229,490)	-	(200,287)
Net assets, Beginning of Year	<u>855,500</u>	<u>309,000</u>	<u>1,512,576</u>	<u>2,677,076</u>
Net assets, End of Year	<u><u>\$ 884,703</u></u>	<u><u>\$ 79,510</u></u>	<u><u>\$ 1,512,576</u></u>	<u><u>\$ 2,476,789</u></u>

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

TULSA OPERA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions and grants	\$ 782,884	\$ 522,500	\$ -	\$ 1,305,384
Subscriptions and ticket sales	482,197	-	-	482,197
Special events	232,250	-	-	232,250
Gain (loss) on investments (realized and unrealized), net of investment advisory fees of \$23,678	(30,201)	-	-	(30,201)
Dividends and interest	73,956	-	-	73,956
Other	12,251	-	-	12,251
Net assets released from restriction	530,458	(530,458)	-	-
Total Revenue	<u>2,083,795</u>	<u>(7,958)</u>	<u>-</u>	<u>2,075,837</u>
Expenses				
Artistic productions and education	1,485,773	-	-	1,485,773
Management and general	420,643	-	-	420,643
Marketing and ticket office	261,208	-	-	261,208
Development	196,491	-	-	196,491
Special events	82,745	-	-	82,745
Sales tax	37,466	-	-	37,466
Total Expenses	<u>2,484,326</u>	<u>-</u>	<u>-</u>	<u>2,484,326</u>
Increase (Decrease) in Net Assets	(400,531)	(7,958)	-	(408,489)
Net assets, Beginning of Year	<u>1,256,031</u>	<u>316,958</u>	<u>1,512,576</u>	<u>3,085,565</u>
Net assets, End of Year	<u>\$ 855,500</u>	<u>\$ 309,000</u>	<u>\$ 1,512,576</u>	<u>\$ 2,677,076</u>

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

TULSA OPERA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Decrease in net assets	\$ (200,287)	\$ (408,489)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	34,241	30,648
Loss on disposal of equipment and production assets	13,035	-
Net investment losses (gains)	(362,890)	540,809
Change in assets and liabilities:		
Accounts receivable	(73)	-
Contributions and grants receivable	75,138	(19,136)
Deferred production costs and other prepaid expenses	38,946	(6,458)
Accounts payable and accrued expenses	42,233	(91,453)
Deferred revenues	(60,050)	4,414
Total adjustments	<u>(219,420)</u>	<u>458,824</u>
Net cash provided by (used in) operating activities	<u>(419,707)</u>	<u>50,335</u>
Cash flows from investing activities		
Purchase of equipment and production assets	(65,852)	-
Change in investments, net	242,921	116,359
Impairment	195,490	-
Net cash provided by (used in) investing activities	<u>372,559</u>	<u>116,359</u>
Cash flows from financing activities		
Cash proceeds from line of credit	665,000	323,000
Repayment of line of credit	(560,000)	(412,053)
Repayment of note payable	(20,033)	(85,103)
Net cash provided by (used in) financing activities	<u>84,967</u>	<u>(174,156)</u>
Change in cash and cash equivalents	37,819	(7,462)
Cash and cash equivalents, beginning of year	<u>14,011</u>	<u>21,473</u>
Cash and cash equivalents, end of year	<u>\$ 51,830</u>	<u>\$ 14,011</u>
Supplemental Disclosure of Cash Flows:		
Cash paid for interest	<u>\$ 47,041</u>	<u>\$ 40,693</u>

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

TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization - Tulsa Opera, Inc. ("Opera") is an Oklahoma nonprofit corporation formed for the purpose of furthering the appreciation of music, particularly opera, for the general public. Tulsa Opera reaches the general public through opera performances, education and outreach. The majority of gifts are received from a broad base of contributors who are committed to supporting the arts in the Tulsa area.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principals. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted - Net assets subject to donor-imposed restrictions which can be fulfilled, either by actions of the Opera and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the period such restrictions are satisfied and reported in the statement of activities as net assets released from restrictions.

Permanently restricted - Net assets subject to donor-imposed restrictions whereby the donor has explicitly expressed that the income earned on their donations may be expended for Opera activities while the corpus is to remain intact.

Cash and Cash equivalents - Cash and cash equivalents include cash on hand, cash in bank accounts and investments with initial maturities of three months or less, except for deposits from contributions that have donor-imposed restrictions limiting their use to long-term investments.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position, with gains and losses included in the statement of activities.

The fair values of investments are generally determined based on quoted market prices or estimates of fair value provided by external investment managers. The amounts the Opera will ultimately realize could differ materially, and significant fluctuations in fair values could occur from year to year. Investment gains and losses generally increase or decrease the Opera's unrestricted net assets unless the terms of the gift or applicable law impose restrictions on the use of income or gains and losses.

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TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants Receivable - Contributions and grants are recorded at fair value at the time an unconditional promise is made. Conditional promises to give are not recorded until the condition is substantially met. Receivables are generally collectible within one year and management believes that no material losses will be incurred from receivables. Amounts the Opera will ultimately realize could materially differ from management's estimates.

Property and Equipment - Property and equipment are recorded at cost if purchased. Donations of property and equipment are recorded as support at the estimated fair market value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless the donor has stipulated how long donated assets must be maintained, Opera reports the expiration of donor restrictions when the donated or acquired assets are placed in service; at that time, the assets are transferred from restricted net assets to unrestricted net assets. Property and equipment are depreciated using the straight-line basis. The Opera follows the practice of capitalizing expenditures for property and equipment in excess of \$2,500 with a useful life of more than one year.

The Opera records impairments to its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values determined by the Opera based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions, and other information. During 2013 it was determined the carrying value of donated land had become impaired based upon a current independent appraisal. An impairment loss of \$195,490 was recognized. No impairments were recorded in 2012.

Beneficial Interest in Assets Held by Others - Beneficial interest in assets held by others represents amounts contributed from the Opera to establish certain donor-advised philanthropic funds ("Funds") within the Tulsa Community Foundation ("Foundation"). The Funds are intended for the benefit of the Opera. While the Opera has the right to recommend distributions from the funds, distributions from the funds will be made at the sole discretion of the Foundation's Board of Trustees. The funds are carried at fair market value. Unrealized gains and losses are included in the Statement of Activities.

The Organization has additional investments with the Tulsa Community Foundation of \$297,265 and \$278,580 at June 30, 2013 and 2012, respectively, which includes contributions made by others for the benefit of Tulsa Opera, Inc. The Foundation has the power to modify the donor's stipulations under certain conditions as the Foundation monitors the changing needs of the community. As such, this amount is not included as an asset, but distributions are recorded when received

Artistic Productions - Opera subscriptions, individual ticket sales, and related productions costs are recognized in the fiscal year in which the performances are presented. Proceeds from advance ticket sales are recorded as deferred revenues.

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TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The costs of providing programs and other supporting activities have been summarized on a functional basis in the statement of activities.

Income Taxes - The most recent determination letter from the Internal Revenue Service states that the Opera is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Opera has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10. The implementation of this standard had no impact on the financial statements. As of June 30, 2013, the unrecognized tax benefit accrual was zero.

The Opera will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense, if incurred. The Opera is no longer subject to Federal and State tax examinations by tax authorities for years before 2010.

Advertising Costs - The Opera expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2013 and 2012, was \$119,821 and \$117,740, respectively.

Estimates - The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America 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 expense during the reported period. Actual results could differ from those estimates.

Contributed Services and Assets - During the years ended June 30, 2013 and 2012, Opera received services contributed by volunteers. A significant amount of those donated services are not reflected in the financial statements because they do not meet the criteria for recognition of such volunteer efforts. Additionally, the value of contributed services which did meet the requirements for recognition in the financial statements was not material and has not been recorded. Opera did not maintain adequate accounting records during 2013 to allow the recording of in-kind donations. In-kind donations amounted to \$29,548 in 2012.

Fair Value Measurements - The Organization has determined the fair value of certain assets and liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Opera employs valuation techniques which maximize the use of observable inputs and minimize the use of unobservable inputs.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

(Continued)

TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 2 -ENDOWMENT INVESTMENTS

The fair value of endowment investments is as follows:

	<u>2013</u>	<u>2012</u>
Equity investments	\$ 1,818,569	\$ 1,842,247
Fixed income	1,021,188	718,249
Short-term investments	165,500	342,097
	<u>\$ 3,005,257</u>	<u>\$ 2,902,593</u>

The cost of endowment investments is as follows:

	<u>2013</u>	<u>2012</u>
Equity investments	\$ 1,182,821	\$ 1,503,659
Fixed income	1,010,720	661,990
Short-term investments	165,500	342,097
	<u>\$ 2,359,041</u>	<u>\$ 2,507,746</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis are as follows:

	<u>Fair Value Measurements Using</u>		
	<u>Quoted Prices in Active Markets of Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2013			
Endowment Investments	\$ 3,005,257	\$ -	-
Beneficial interest in assets held by others	-	275,083	-
Contributions and grants receivable	-	-	51,870
Total Assets	<u>\$ 3,005,257</u>	<u>\$ 275,083</u>	<u>\$ 51,870</u>
December 31, 2012			
Endowment Investments	\$ 2,902,593	\$ -	-
Beneficial interest in assets held by others	-	257,778	-
Contributions and grants receivable	-	-	127,008
Total Assets	<u>\$ 2,902,593</u>	<u>\$ 257,778</u>	<u>\$ 127,008</u>

The beneficial interest in assets held by Tulsa Community Foundation are carried at fair value, which is based upon quoted market prices at December 31, 2013 and 2012. Amounts subject to the variance power of the Tulsa Community Foundation are not recorded as an asset of the Organization.

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TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
Buildings and improvements	\$ 339,285	\$ 330,786
Land	189,337	384,827
Furniture, fixtures and equipment	300,068	323,955
Automobiles	42,615	-
Total property and equipment	<u>871,305</u>	<u>1,039,568</u>
Less accumulated depreciation	<u>(545,012)</u>	<u>(536,361)</u>
Net property and equipment	<u>\$ 326,293</u>	<u>\$ 503,207</u>

NOTE 5 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Computers	\$ -	\$ 4,000
Van	-	30,000
Contributed land	79,510	275,000
	<u>\$ 79,510</u>	<u>\$ 309,000</u>

During the years ended June 30, 2013 and 2012, net assets in the amount of \$334,008 and \$530,458, respectively, were released from donor restrictions by incurring expenses for the purchase of a vehicle, computers, artistic productions and education.

Permanently restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Perpetual Endowment	<u>\$ 1,512,576</u>	<u>\$ 1,512,576</u>

NOTE 6 - LINE OF CREDIT

The Opera has a line-of-credit agreement which allows for maximum borrowings of \$400,000 with a local bank. The line is non collateralized and requires monthly interest payments of 4 percent. The line matured on February 28, 2013. The line of credit was modified on April 29, 2013 to allow for maximum borrowings of \$600,000. The line of credit is collateralized by assets held within the Tulsa Opera Endowment Trust and required monthly interest payments of 3.25%. The line-of-credit has not been modified as of the audit date.

(Continued)

TULSA OPERA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 7 - NOTE PAYABLE

The note payable consists of a long-term note with an original balance of \$600,075 and an interest rate of 4.6%. The term is 35 months with a balloon payment in the 36th month. The note commenced in January of 2011 and matured in January 2014. In April 2014, Opera entered into a new agreement with the lender to grant a security interest to all future cash proceeds and non-cash proceeds of all nature and kinds, including without limitation, all rights to payment, all stock rights, dividends and stock splits, and anything acquired upon the sale, lease, license, exchange or other disposition of any of the foregoing.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Opera has commitments outstanding at June 30, 2013, for artist contracts and set and costume rentals that will be fulfilled in the 2014 year. The commitments at June 30, 2013, totaled \$331,939.

NOTE 9 - LEASES

The Opera leases various equipment and a storage facility under non-cancellable operating lease agreements which expire at various dates through 2013. No new lease agreements were entered into by Tulsa Opera during 2013. Total rent expense was \$67,071 and \$71,220 for the years ended June 30, 2013 and 2012, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLANS

Tulsa Opera, Inc. has adopted a 403(b) retirement plan which allows certain employees, based on eligibility, the option to make tax deferred contributions. Matching contributions from Tulsa Opera, Inc. are discretionary for employees with more than one year of service. The board has suspended matching contributions for 2013 and 2012.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Opera had agreements with the local American Federation of Musicians Union for performances in Opera productions during fiscal years 2013 and 2012. The Opera's financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization maintains its cash balances at local banks. At June 30, 2013 and 2012, the balances were insured by the Federal Deposit Insurance Corporation. At times, the Opera's deposits may exceed insured amounts.

NOTE 12 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 5, 2014, the date the financial statements were available to be issued.