

FLORENTINE OPERA COMPANY, INC.

FINANCIAL STATEMENTS

June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florentine Opera Company, Inc.
Milwaukee, Wisconsin

Opinion

We have audited the financial statements of Florentine Opera Company, Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Florentine Opera Company, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Florentine Opera Company, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Florentine Opera Company, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update No 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective July 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Florentine Opera Company, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Florentine Opera Company, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Florentine Opera Company, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Wegner CPAs LLP

Wegner CPAs, LLP
Waukesha, Wisconsin
September 29, 2022

FLORENTINE OPERA COMPANY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,840,900	\$ 1,756,161
Unconditional promises to give	689,148	210,723
Families First Coronavirus Response Act Assistance refundable credit receivable	254,170	245,865
Prepaid expenses	159,066	97,709
Total current assets	2,943,284	2,310,458
OTHER ASSETS		
Investments	4,627,674	3,582,465
Leasehold improvements and equipment, net	27,659	27,821
Total other assets	4,655,333	3,610,286
Total assets	\$ 7,598,617	\$ 5,920,744
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	63,639	\$ 33,306
Refundable advances	152,250	158,500
Deferred program revenue	103,397	169,160
Funds held for others	2,000	2,000
Paycheck Protection Program loan	-	217,000
Total liabilities	321,286	579,966
NET ASSETS		
Without donor restrictions	3,673,393	2,634,942
With donor restrictions	3,603,938	2,705,836
Total net assets	7,277,331	5,340,778
Total liabilities and net assets	\$ 7,598,617	\$ 5,920,744

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Contributions			
Contributions of cash and financial assets	\$ 2,976,607	\$ 1,249,600	\$ 4,226,207
United Performing Arts Fund	564,965	102,273	667,238
Grants	40,141	-	40,141
Contributions of nonfinancial assets	64,582	-	64,582
Paycheck Protection Program loan forgiven	217,000	-	217,000
Program revenue			
Ticket sales	167,333	-	167,333
Education and outreach	56,253	-	56,253
Investment return, net	(296,221)	(308,998)	(605,219)
Other	2,089	-	2,089
Total revenues	3,792,749	1,042,875	4,835,624
EXPENSES			
Program services			
Productions	1,984,571	-	1,984,571
Education and outreach	265,875	-	265,875
Total program services	2,250,446	-	2,250,446
Supporting activities			
Administration	369,946	-	369,946
Development	278,679	-	278,679
Total expenses	2,899,071	-	2,899,071
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of purpose restrictions and expiration of time restrictions	144,773	(144,773)	-
Change in net assets	1,038,451	898,102	1,936,553
Net assets at beginning of year	2,634,942	2,705,836	5,340,778
Net assets at end of year	\$ 3,673,393	\$ 3,603,938	\$ 7,277,331

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Contributions			
Contributions of cash and financial assets	\$ 1,362,780	\$ 365,380	\$ 1,728,160
United Performing Arts Fund	543,151	102,273	645,424
Grants	24,800	-	24,800
Contributions of nonfinancial assets	46,208	-	46,208
COVID-19 relief grants	155,462	-	155,462
Families First Coronavirus Response			
Act assistance	290,865	-	290,865
Paycheck Protection Program loan forgiven	217,000	-	217,000
Program service revenue and other gains			
Ticket sales	44,747	-	44,747
Education and outreach	39,997	-	39,997
Investment return, net	271,552	444,070	715,622
Other	2,802	-	2,802
	<u>2,999,364</u>	<u>911,723</u>	<u>3,911,087</u>
Total revenues and gains	2,999,364	911,723	3,911,087
EXPENSES			
Program services			
Productions	926,696	-	926,696
Education and outreach	290,760	-	290,760
	<u>1,217,456</u>	<u>-</u>	<u>1,217,456</u>
Total program services	1,217,456	-	1,217,456
Supporting activities			
Administration	256,953	-	256,953
Development	236,068	-	236,068
	<u>1,710,477</u>	<u>-</u>	<u>1,710,477</u>
Total expenses	1,710,477	-	1,710,477
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of purpose restrictions and expiration of time restrictions	102,273	(102,273)	-
	<u>102,273</u>	<u>(102,273)</u>	<u>-</u>
Change in net assets	1,391,160	809,450	2,200,610
Net assets at beginning of year	1,243,782	1,896,386	3,140,168
	<u>1,243,782</u>	<u>1,896,386</u>	<u>3,140,168</u>
Net assets at end of year	<u>\$ 2,634,942</u>	<u>\$ 2,705,836</u>	<u>\$ 5,340,778</u>

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	<u>Program Services</u>		<u>Supporting Activities</u>		<u>Total Expenses</u>
	<u>Productions</u>	<u>Education and Outreach</u>	<u>Administration</u>	<u>Development</u>	
Personnel	\$ 1,218,552	\$ 192,033	\$ 135,040	\$ 190,790	\$ 1,736,415
Occupancy	223,355	44,895	19,555	-	287,805
Advertising and promotion	34,054	287	31,219	12,963	78,523
Music	86,120	40	-	-	86,160
Events, conferences, and meetings	32,138	806	11,320	50,045	94,309
Set, supplies, and equipment	191,060	6,316	4,416	708	202,500
Video, recording, and photography	6,340	6,050	430	1,150	13,970
Professional fees	35,724	4,126	76,667	9,039	125,556
Office expenses	5,850	2,581	20,819	3,197	32,447
Travel	37,294	5,878	3,955	2,144	49,271
Information technology	15,379	224	48,154	8,414	72,171
Wardrobe, wigs, and makeup	70,882	2,419	-	-	73,301
Insurance	24,059	-	11,920	-	35,979
Depreciation	3,817	220	899	229	5,165
Bad debt	-	-	1,000	-	1,000
Miscellaneous	(53)	-	4,552	-	4,499
Total expenses	<u>\$ 1,984,571</u>	<u>\$ 265,875</u>	<u>\$ 369,946</u>	<u>\$ 278,679</u>	<u>\$ 2,899,071</u>

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	<u>Program Services</u>		<u>Supporting Activities</u>		<u>Total Expenses</u>
	<u>Productions</u>	<u>Education and Outreach</u>	<u>Administration</u>	<u>Development</u>	
Personnel	\$ 512,224	\$ 231,872	\$ 125,149	\$ 165,351	\$ 1,034,596
Occupancy	139,045	35,785	20,189	-	195,019
Advertising and promotion	37,993	-	12,082	11,080	61,155
Music	14,621	685	-	-	15,306
Events, conferences, and meetings	11,045	68	1,683	45,423	58,219
Set, supplies, and equipment	54,960	6,769	1,588	326	63,643
Video, recording, and photography	50,983	-	-	315	51,298
Professional fees	28,065	7,204	56,448	2,506	94,223
Office expenses	8,401	1,857	12,494	2,893	25,645
Travel	10,274	2,849	-	67	13,190
Information technology	18,519	405	14,691	8,021	41,636
Wardrobe, wigs, and makeup	12,234	2,812	-	-	15,046
Insurance	17,744	-	5,765	-	23,509
Depreciation	1,330	220	6,204	-	7,754
Miscellaneous	9,258	234	660	86	10,238
Total expenses	<u>\$ 926,696</u>	<u>\$ 290,760</u>	<u>\$ 256,953</u>	<u>\$ 236,068</u>	<u>\$ 1,710,477</u>

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,936,553	\$ 2,200,610
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term purposes	(1,004,600)	(322,808)
Depreciation	5,165	7,754
Net unrealized and realized (gains) losses on investments	671,311	(687,653)
Paycheck Protection Program loan forgiven	(217,000)	(217,000)
(Increase) decrease in assets		
Unconditional promises to give	(478,425)	119,831
Families First Coronavirus Response Act Assistance refundable credit receivable	(8,305)	(245,865)
Prepaid expenses	(61,357)	(87,044)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	30,333	23,914
Refundable advances	(6,250)	10,260
Deferred program revenue	(65,763)	52,745
Net cash flows from operating activities	<u>801,662</u>	<u>854,744</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of leasehold improvements and equipment	(5,003)	(23,807)
Purchases of investments and reinvested interest and dividends	(3,921,928)	(1,119,331)
Proceeds from sales of investments	<u>2,205,408</u>	<u>1,091,362</u>
Net cash flows from investing activities	<u>(1,721,523)</u>	<u>(51,776)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	217,000
Proceeds from contributions restricted for debt retirement	-	322,500
Proceeds from contributions restricted for investment in permanent endowment	<u>1,004,600</u>	<u>308</u>
Net cash flows from financing activities	<u>1,004,600</u>	<u>539,808</u>
Change in cash	<u>84,739</u>	<u>1,342,776</u>
Cash at beginning of year	<u>1,756,161</u>	<u>413,385</u>
Cash at end of year	<u><u>\$ 1,840,900</u></u>	<u><u>\$ 1,756,161</u></u>

See accompanying notes.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Florentine Opera Company, Inc. (Florentine) is a non-profit corporation that promotes opera and enriches the musical culture in Milwaukee, Wisconsin, and the surrounding area. Florentine is primarily supported by donations from the general public.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

Florentine reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

Leasehold Improvements and Equipment

All acquisitions of leasehold improvements and equipment and all expenditures for repairs, maintenance, and improvements that materially prolong the useful lives of assets are capitalized. Depreciation is computed using the straight-line method.

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Florentine's revenue primarily consists of ticket sales to operatic performances and fees from educational programs, camps, and community events.

Tickets to operatic performances are sold individually or in packages of multiple performances at a discount. Ticket sales are recognized as revenue at a point in time when the performance occurs. Florentine generally bills for these services prior to the date the performance occurs. If a performance is canceled, customers have the option to receive a credit for a future performance, have their fees refunded, or donate the fees to Florentine. Sales taxes collected from customers are excluded from revenue.

Fees from educational programs, camps, and community events are generally recognized as revenue at a point in time when the event occurs. Florentine generally bills for these services prior to or on the date the services are provided.

Payments for tickets to operatic performances and fees for educational events received in advance are deferred and recognized over the periods to which the service relates.

Donated Services

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Advertising

Florentine uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed the first time the advertising takes place.

Income Tax Status

Florentine is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Florentine qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

FFCRA Tax Credit

FFCRA tax credit consist of tax credits received or due from The Families First Coronavirus Response Act, providing small and midsized employers a refundable payroll tax credit for qualified wages paid to retained full-time employees.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, occupancy, office expenses, travel, information technology, insurance, depreciation, and miscellaneous, which are allocated on the basis of estimates of time and effort.

The following program services and supporting activities are included in the accompanying financial statements:

Productions – producing operas reflecting the highest musical and theatrical standards to establish a significant presence in the cultural, educational, and civic life of Wisconsin and beyond. The productions are designed to fulfill Florentine’s vision to expand the experiences of patrons with memorable, outstanding, and exciting performances.

Education and Outreach – educating students and the community about opera and career opportunities within opera, providing opera introduction and continuing education events for adults, and providing opportunities for young artists.

Administration – includes accounting and production of financial reports, development and oversight of annual budget, supervision of all departments, maintenance of personnel records, and representation of Florentine within the community.

Development – includes cultivation of new donors, fundraising events, membership solicitations, planned giving activities, and media and public relations activities.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Date of Management’s Review

Management has evaluated subsequent events through September 29, 2022, the date which the financial statements were available to be issued.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

Adoption of New Accounting Guidance

On September 17, 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The intent of this Update is to improve transparency in the reporting of contributed nonfinancial assets received by not-for-profit entities. The Update requires a not-for-profit entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The Update also requires enhanced disclosures about the valuation of contributed nonfinancial assets and their use in programs and other activities, including any donor-imposed restrictions on such use. Florentine adopted the requirements of this Update effective July 1, 2021. The changes required by this Update have been applied retrospectively to all periods presented.

NOTE 2—CONDITIONAL PROMISES TO GIVE

Florentine has promises to give and contributions that are conditioned upon Florentine meeting financial performance objectives, holding various events, or performing operas. At June 30, 2022, these conditional promises and contributions totaled \$177,250. These amounts will be recognized as revenue when the respective conditions are met.

NOTE 3—INVESTMENTS

Investments are comprised of the following:

	2022	2021
Cash and equivalents held by investment managers	\$ 348,978	\$ 47,262
Mutual funds	2,690,913	2,475,305
Fixed income	1,325,656	1,014,517
Real estate funds	262,127	45,381
Investments	\$ 4,627,674	\$ 3,582,465

Mutual funds, real estate funds, and \$1,130,855 and \$859,944 of fixed income funds for the years ended June 30, 2022 and 2021, respectively, are valued at unadjusted quoted prices reported on the active markets on which the individual securities are traded, which are Level 1 fair value measurements. \$194,802 and \$154,573 of fixed income funds for the years ended June 30, 2022 and 2021, respectively, are determined using a market approach on yields currently available on comparable securities of issuers with similar credit ratings, which are Level 2 fair value measurements.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 4—LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consist of the following:

	2022	2021
Leasehold improvements	\$ 201,605	\$ 201,605
Equipment	279,680	274,677
Leasehold improvements and equipment	481,285	476,282
Less accumulated depreciation	453,626	448,461
Leasehold improvements and equipment, net	\$ 27,659	\$ 27,821

NOTE 5—PAYMENT PROTECTION PROGRAM LOANS

Florentine received loans totaling \$434,000 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (SBA). The loans accrue interest at 1% but payments are deferred for borrowers who apply for forgiveness until SBA remits the borrower's forgiveness amount to the lender. The amount of forgiveness depends, in part, on the total amount of eligible expenses paid by Florentine during the covered period. Eligible expenses may include payroll costs, interest on mortgages, rent, and utilities. Any unforgiven portion is payable over five years. On November 4, 2020, the SBA preliminarily approved forgiveness of Florentine's \$217,000 first draw loan. On November 8, 2021, the SBA preliminarily approved forgiveness of Florentine's \$217,000 second draw loan. Florentine must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request.

SBA may review any loan at any time at its discretion. Therefore, SBA may review Florentine's good-faith certification concerning the necessity of its loan request, whether Florentine calculated the loan amount correctly, whether Florentine used loan proceeds for the allowable uses specified in the CARES Act, and whether Florentine is entitled to loan forgiveness in the amount claimed on its application. If SBA determines Florentine was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

NOTE 6—CONCENTRATION OF CREDIT RISK

Florentine maintains cash balances at financial institutions located in southeastern Wisconsin. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. For years ended June 30, 2022 and 2021, Florentine's uninsured cash balances total approximately \$1,560,000 and \$1,410,000, respectively.

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 7—ENDOWMENT

Florentine's endowment consists of funds restricted by donors for long-term investment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of Florentine has interpreted Wisconsin's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Florentine considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Florentine has interpreted UPMIFA to permit spending from underwater funds in accordance with the measures required under the law.

In accordance with UPMIFA, Florentine 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 purposes of 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 Florentine, and (7) Florentine's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies

Florentine has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original investment of the endowment. Endowment assets include those assets of donor-restricted funds that Florentine must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce returns to fund operations while assuming a moderate level of investment risk. To satisfy its long-term rate-of-return objectives Florentine relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains/losses and interest and dividends. Florentine targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

During an annual fiscal period, distributions are not to exceed 5% of the three year rolling average value of the fund, as valued at its most recently completed calendar year-end valuation. All distributions as to amounts and timing from the fund are made at the discretion of the Finance Committee. If feasible, distributions will not be made if such distribution would cause the value of the fund to fall below the gifted value of the endowment corpus plus any outstanding portion of the line of credit at fiscal year-end. In a situation where the distribution request does not follow the guidelines, the written approval of a 75% majority of all members of the board of directors then duly elected and qualified to vote shall be required to authorize the use of such

FLORENTINE OPERA COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 7—ENDOWMENT (Continued)

funds. Any undistributed income in excess of amounts required to satisfy the spending rule shall be accumulated and added to the principal. The approval of a 75% majority of all members of the board of directors then duly elected and qualified shall be required to authorize the use of such funds. Florentine expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with Florentine's objective to maintain the original investment of the endowment assets as well as to provide additional real growth through investment return.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Florentine to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that have occurred. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions. As of June 30, 2022, the amount by which funds were underwater were \$13,048.

As of June 30, 2022 and 2021, endowment net assets were comprised of net assets with donor restrictions. Changes in endowment net assets for the years ended June 30, 2022 and 2021, are:

	2022	2021
Endowment net assets at beginning of year	\$ 2,238,563	\$ 1,794,113
Contributions	1,004,600	380
Investment return, net	(308,998)	444,070
Endowment net assets at end of year	\$ 2,934,165	\$ 2,238,563

Endowment net asset composition by type of fund is as follows:

	2022	2021
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 2,839,096	\$ 1,834,496
Accumulated investment earnings	95,069	404,067
	\$ 2,934,165	\$ 2,238,563

NOTE 8—CONCENTRATION OF LABOR

Substantially all of the actors, stage managers, and directors hired to perform in Florentine's productions are members of the American Guild of Musical Artists (AGMA). Florentine's contract with AGMA will expire in 2023.

FLORENTINE OPERA COMPANY, INC.
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June 30, 2022 and 2021

NOTE 9—NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Endowment:		
Subject to Florentine's spending policy:		
General use	\$ 2,934,165	\$ 2,238,563
Purpose restrictions:		
Debt retirement	542,500	322,500
Specific operas and galas	25,000	42,500
Subsequent years' operations	102,273	102,273
Total net assets with donor restrictions	\$ 3,603,938	\$ 2,705,836

NOTE 10—CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the statements of activities include:

	2022			
	Productions	Administration	Development	Total
IT support	\$ -	\$ 38,616	\$ -	\$ 38,616
Legal services	-	18,875	-	18,875
Event services	-	-	7,091	7,091
	\$ -	\$ 57,491	\$ 7,091	\$ 64,582
	2021			
	Productions	Administration	Development	Total
IT support	\$ 8,424	\$ 2,550	\$ -	\$ 10,974
Legal services	-	27,614	-	27,614
Printing services	1,050	-	-	1,050
Donated facilities	-	-	6,570	6,570
	\$ 9,474	\$ 30,164	\$ 6,570	\$ 46,208

Contributed information technology, legal, and printing services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services. The fair value for the use of donated facilities was estimated on the basis similarly priced rental facilities located in Milwaukee, Wisconsin.

No contributed nonfinancial assets were restricted. Florentine does not sell gifts-in-kind.

FLORENTINE OPERA COMPANY, INC.
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NOTE 11—LINE OF CREDIT

Florentine has a \$1,000,000 line of credit. Advances on credit line are payable June 30, 2023, and carry an interest rate of 1% under prime (3.75% at June 30, 2022). The credit line is secured by Florentine's investments in their general investment account.

NOTE 12—PENSION PLAN

Florentine sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of Florentine. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Florentine makes discretionary matches to participants' contributions up to 3% after the employee has one year of service. There were no matching contributions made for the years ended June 30, 2022 and 2021.

NOTE 13—OPERATING LEASES

Florentine leases office facilities, office equipment, performance and rehearsal halls, housing for artists, and warehouse space under non-cancellable operating leases that expire at various dates through March 2027. Expenses incurred under operating leases for the years ended June 30, 2022 and 2021 were \$287,805 and \$195,019, respectively.

Lease agreements include an agreement with a leasing company owned by a member of Florentine's board of directors for the use of office facilities, a rehearsal hall, and warehouse space. Rent expense under this agreement for the years ended June 30, 2022 and 2021, was \$93,762 and \$91,920, respectively.

Future minimum lease payments for the years ending June 30 are as follows:

2023	\$ 160,571
2024	146,923
2025	134,669
2026	137,479
2027	<u>78,953</u>
	<u>\$ 658,595</u>

NOTE 14—COMMITMENTS

In connection with performances planned for the 2022-2023 season, Florentine has made various commitments to performers, production personnel, and service organizations. At June 30, 2022, such commitments total approximately \$297,000.

FLORENTINE OPERA COMPANY, INC.
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June 30, 2022 and 2021

NOTE 15—LIQUIDITY AND AVAILABILITY

The following table reflects Florentine’s financial assets at June 30, 2022 and 2021, reduced by amounts not available to meet cash needs for general expenditures within one year of the date of the statements of financial position:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,840,900	\$ 1,756,161
Unconditional promises to give Families First Coronavirus Response Act Assistance refundable credit receivable	689,148	210,723
Investments	<u>4,627,674</u>	<u>3,582,465</u>
Financial assets at end of year	7,411,892	5,795,214
Less those unavailable for general expenditures within one year:		
Funds held for others	(2,000)	(2,000)
Restricted by donor for a specific purpose	(567,500)	(365,000)
Donor-restricted endowment	<u>(2,934,165)</u>	<u>(2,238,563)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,908,227</u>	<u>\$ 3,189,651</u>

As part of Florentine’s liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. Florentine also has available a \$1,000,000 line of credit to draw on if cash needs arise.