Houston Grand Opera Association, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2018 and 2017

Houston Grand Opera Association, Inc.

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Independent Auditors' Report

To the Board of Directors of
Houston Grand Opera Association, Inc.:

We have audited the accompanying financial statements of Houston Grand Opera Association, Inc., which comprise the consolidated statements of financial position as of July 31, 2018 and 2017 and the related consolidated statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Houston Grand Opera Association, Inc. as of July 31, 2018 and 2017 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the consolidating statements of financial position as of July 31, 2018 and 2017 and consolidating statements of activities for the years ended July 31, 2018 and 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

November 15, 2018

Houston Grand Opera Association, Inc.

Consolidated Statements of Financial Position as of July 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 4,130,084	$ 180,903
Accounts receivable	618,188	697,424
Operating pledges receivable, net *(Note 3)*	19,737,272	19,181,252
Deferred production costs and other assets	2,208,653	2,250,556
Beneficial interest in charitable trust *(Notes 4 and 6)*	1,740,437	1,938,786
Pledges receivable restricted for endowment, net *(Note 3)*	108,804	745,637
Investments *(Notes 5 and 6)*	66,597,914	55,574,713
Property, net *(Note 7)*	503,251	407,447
TOTAL ASSETS	$ 95,644,603	$ 80,976,718
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 490,980	$ 202,812
Accrued salaries and benefit costs	414,494	345,763
Accrued production expense	195,783	205,645
Deferred subscription revenue	2,986,771	2,969,476
Deferred co-production and set rental revenue	136,621	41,227
Total liabilities	4,224,649	3,764,923
Commitments and contingencies *(Note 9)*		
Net assets *(Note 12)*:		
Unrestricted *(Note 10)*	3,613,551	(1,385,358)
Temporarily restricted *(Note 11)*	37,844,408	31,988,938
Permanently restricted	49,961,995	46,608,215
Total net assets	91,419,954	77,211,795
TOTAL LIABILITIES AND NET ASSETS	$ 95,644,603	$ 80,976,718

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions	$ 12,233,132	$ 9,895,553	$ 3,353,780	$ 25,482,465
Ticket sales and performance fees	4,575,926			4,575,926
Special events	1,318,126	1,767,406		3,085,532
Cost of direct donor benefits	(479,656)			(479,656)
Investment return, net *(Note 5)*	147,093	5,026,267		5,173,360
Production income	1,087,306			1,087,306
Insurance proceeds *(Note 2)*	3,200,000			3,200,000
Other income	131,734			131,734
Total revenue	22,213,661	16,689,226	3,353,780	42,256,667
Net assets released from restrictions:				
Time and purpose restrictions	7,251,383	(7,251,383)		
Endowment appropriation	2,505,590	(2,505,590)		
Redesignation for special events	1,076,783	(1,076,783)		
Total	33,047,417	5,855,470	3,353,780	42,256,667
EXPENSES:				
Program services:				
Mainstage	17,024,307			17,024,307
Education	1,200,072			1,200,072
Studio	1,097,030			1,097,030
Total program services	19,321,409			19,321,409
Fundraising	3,606,011			3,606,011
Marketing and advertising	3,530,477			3,530,477
Management and general	1,590,611			1,590,611
Total expenses	28,048,508			28,048,508
CHANGES IN NET ASSETS	4,998,909	5,855,470	3,353,780	14,208,159
Net assets, beginning of year	(1,385,358)	31,988,938	46,608,215	77,211,795
Net assets, end of year	$ 3,613,551	$ 37,844,408	$ 49,961,995	$ 91,419,954

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions	$ 7,916,811	$ 7,560,432	$ 780,878	$ 16,258,121
Ticket sales and performance fees	4,638,135			4,638,135
Special events	1,744,642	653,400		2,398,042
Cost of direct donor benefits	(429,148)			(429,148)
Investment return, net *(Note 5)*	134,569	4,548,288		4,682,857
Production income	1,224,836			1,224,836
Other income	223,025			223,025
Total revenue	15,452,870	12,762,120	780,878	28,995,868
Net assets released from restrictions:				
Time and purpose restrictions	5,966,309	(5,966,309)		
Endowment appropriation	3,953,494	(3,953,494)		
Redesignation for special events	752,075	(752,075)		
Donor redesignation		(75,000)	75,000	
Total	26,124,748	2,015,242	855,878	28,995,868
EXPENSES:				
Program services:				
Mainstage	15,605,722			15,605,722
Education	970,056			970,056
Studio	1,105,462			1,105,462
Total program services	17,681,240			17,681,240
Fundraising	3,570,411			3,570,411
Marketing and advertising	3,196,727			3,196,727
Management and general	1,826,621			1,826,621
Total expenses	26,274,999			26,274,999
CHANGES IN NET ASSETS	(150,251)	2,015,242	855,878	2,720,869
Net assets, beginning of year	(1,235,107)	29,973,696	45,752,337	74,490,926
Net assets, end of year	$ (1,385,358)	$ 31,988,938	$ 46,608,215	$ 77,211,795

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statements of Cash Flows for the years ended July 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 14,208,159	$ 2,720,869
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(4,086,870)	(3,810,229)
Change in beneficial interest in charitable trust	12,290	47,544
Contributions restricted for endowment	(3,353,780)	(780,878)
Depreciation	263,683	281,351
Changes in operating assets and liabilities:		
Accounts receivable	79,236	(443,512)
Operating pledges receivable	(556,020)	1,229,384
Deferred production costs and other assets	41,903	(466)
Accounts payable and accrued expenses	347,037	(54,739)
Deferred revenue	112,689	(98,236)
Net cash provided (used) by operating activities	7,068,327	(908,912)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(11,324,962)	(12,143,844)
Proceeds from sale of investments	8,460,937	14,618,996
Net change in cash and money market mutual funds held as investments	(4,072,306)	(1,579,384)
Redemptions from beneficial interest in charitable trust	186,059	186,058
Purchases of property	(359,487)	(74,095)
Net cash provided (used) by investing activities	(7,109,759)	1,007,731
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	3,200,000	6,800,000
Payments on note payable	(3,200,000)	(8,300,000)
Proceeds from contributions restricted for endowment	3,990,613	1,022,132
Net cash provided (used) by financing activities	3,990,613	(477,868)
NET CHANGE IN CASH	3,949,181	(379,049)
Cash, beginning of year	180,903	559,952
Cash, end of year	$ 4,130,084	$ 180,903

Supplemental disclosure of cash flow information:

Donated securities	$2,145,548	$1,127,205

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Functional Expenses for the year ended July 31, 2018

	MAINSTAGE	EDUCATION	STUDIO	TOTAL PROGRAM SERVICES	FUNDRAISING	MARKETING AND ADVERTISING	MANAGEMENT AND GENERAL	TOTAL EXPENSES
Salaries and wages	$ 7,385,866	$ 521,828	$ 604,138	$ 8,511,832	$ 1,964,282	$ 1,449,183	$ 886,731	$ 12,812,028
Payroll taxes and benefits	1,791,211	107,641	188,233	2,087,085	360,009	277,981	268,575	2,993,650
Professional fees	3,254,923	172,878	139,972	3,567,773	71,069	252,181	128,931	4,019,954
Production materials	1,723,472	18,733	1,557	1,743,762				1,743,762
Advertising and public relations	17,852	20,496	4,300	42,648	258,414	856,648	11,006	1,168,716
Building and storage rentals	858,062	42,632	26,046	926,740	89,282	39,890	12,356	1,068,268
Travel	575,524	253,965	67,974	897,463	50,749	13,113	90,985	1,052,310
Equipment	532,325	15,143	4,379	551,847	50,557	19,565	8,849	630,818
Office supplies and expenses	122,517	14,207	3,137	139,861	117,023	252,604	64,180	573,668
Catering and event expenses					428,642	18,108		446,750
Production shipping costs	306,198			306,198				306,198
Depreciation	142,143			142,143	12,134	91,250	18,156	263,683
Insurance	125,751	11,426	19,711	156,888	35,996	30,287	27,628	250,799
Bank credit card fees		20		20	56,557	156,896	4,517	217,990
Information technology	68,430	7,747	19,367	95,544	28,405	50,823	20,658	195,430
Conferences and meetings	15,022	11,696	18,069	44,787	75,099	12,272	35,251	167,409
Royalties	105,011	1,660	147	106,818				106,818
Interest							12,788	12,788
Other					7,793	9,676		17,469
Total expenses	$ 17,024,307	$ 1,200,072	$ 1,097,030	$ 19,321,409	$ 3,606,011	$ 3,530,477	$ 1,590,611	28,048,508
Cost of direct donor benefits								479,656
Investment management fees								238,252
Total								$ 28,766,416
Direct costs associated with Hurricane Harvey recovery included in expenses above *(Note 2)*	$1,359,711	$2,664	$14,316	$1,376,691	$96,293	$61,479	$159,405	$1,693,868

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Functional Expenses for the year ended July 31, 2017

	MAINSTAGE	EDUCATION	STUDIO	TOTAL PROGRAM SERVICES	FUNDRAISING	MARKETING AND ADVERTISING	MANAGEMENT AND GENERAL	TOTAL EXPENSES
Salaries and wages	$ 7,697,003	$ 509,236	$ 668,118	$ 8,874,357	$ 1,700,797	$ 1,348,160	$ 1,080,057	$ 13,003,371
Payroll taxes and benefits	1,761,222	85,361	201,780	2,048,363	298,683	251,475	282,769	2,881,290
Professional fees	3,111,831	186,435	124,570	3,422,836	282,061	280,197	85,001	4,070,095
Production materials	1,082,941	32,551	848	1,116,340				1,116,340
Advertising and public relations	30,763	23,007	5,387	59,157	195,931	648,029	12,438	915,555
Building and storage rentals	699,726	16,260	9,365	725,351	98,459	61,948	30,263	916,021
Travel	405,729	61,102	76,310	543,141	47,743	12,366	106,017	709,267
Equipment	96,535	5,485	330	102,350	115,268	15,768	9,630	243,016
Office supplies and expenses	90,267	15,446	2,424	108,137	97,303	267,497	56,815	529,752
Catering and event expenses					477,699	23,528		501,227
Production shipping costs	169,081			169,081				169,081
Depreciation	157,150			157,150	12,744	91,038	20,419	281,351
Insurance	132,395			132,395	31,993	27,559	22,053	214,000
Bank credit card fees		19		19	59,566	135,799	7,676	203,060
Information technology	65,783			65,783	22,613	22,613	15,418	126,427
Conferences and meetings	24,609	28,371	16,100	69,080	64,843	7,665	33,079	174,667
Royalties	80,687	6,783	230	87,700	300			88,000
Interest							64,986	64,986
Other					64,408	3,085		67,493
Total expenses	$ 15,605,722	$ 970,056	$ 1,105,462	$ 17,681,240	$ 3,570,411	$ 3,196,727	$ 1,826,621	26,274,999
Cost of direct donor benefits								429,148
Investment management fees								258,260
Total								$ 26,962,407

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Houston Grand Opera Association, Inc. (the Association) was founded in 1955 to promote and provide suitable opportunities for the advancement of musical culture by producing, sponsoring, or otherwise making available to the general public music theater performances including grand opera, light opera, operetta, musical theater, and recitals.

The Association's programs include theater performances, HGOco, and Houston Grand Opera Studio. HGOco, Houston Grand Opera's community engagement initiative, develops educational programs and relationships for children, teachers, and the general public including high school nights at mainstage performances, and student matinees. Houston Grand Opera Studio is a nationally acclaimed training and performance program dedicated to the advancement of young artists with the potential for major careers in the opera, music, and theater.

The Houston Grand Opera Guild (the Guild) promotes quality musical drama performances, including grand operas, provides suitable opportunities for the advancement of musical culture, and instills through education and performances the traditions of opera and music theater in the general public. The Association is the sole member of the Guild. The Houston Grand Opera Endowment (the Endowment) was founded to accumulate and manage a permanent endowment for the purpose of supporting the operations of the Association. The Board of Trustees of the Endowment is appointed by the Board of Directors of the Association.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Association, the Guild, and the Endowment (collectively the Opera). All balances and transactions between these consolidated entities have been eliminated.

Federal income tax status – The Association, the Guild, and the Endowment are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Association and the Guild are classified as public charities under §509(a)(2). The Endowment is classified as a public charity and a Type I supporting organization under §509(a)(3).

Cash includes demand deposits which exceed the federally insured limit per depositor per institution. Cash held in investment accounts is included in investments.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Allowance for uncollectible accounts – An allowance for accounts receivable or pledges receivable is provided when it is believed balances may not be collected in full. It is the Opera's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and individual account-by-account analysis of accounts receivable and pledges receivable balances. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of accounts receivable and pledges receivable.

Deferred production costs – Expenses for scenery, costumes, music, and stage properties are reported as deferred production costs if specifically related to productions of future opera seasons. These costs are expensed in the year the production is performed.

Beneficial interest in charitable trust is reported at fair value. The change in beneficial interest is reported as contributions in the statement of activities.

Investment valuation and income recognition – Investments are reported at fair value. Purchases and sales of securities are reported on a trade-date basis. The Association's management determines valuation policies utilizing information provided by its investment advisers, custodians and fund managers. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses includes gains and losses on investments bought and sold as well as held during the year. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. Property is depreciated using the straight-line method over estimated useful lives of 2 to 15 years. Expenditures greater than $1,000 with useful lives greater than 22 months are capitalized.

Net asset classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished, a time restriction ends, or Endowment earnings are appropriated for use, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return may be used to support donor-specified programs.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials, use of facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions of $253,099 and $328,003 in 2018 and 2017, respectively, consisting primarily of mainstage travel, professional services and fundraising catering costs, were recognized by the Association.

Ticket sales and performance fees are recognized as revenue when the performance takes place. Amounts received for future Association season performances are included in the statement of financial position as deferred subscription revenue.

Production income – The Association enters into co-production agreements with other opera companies or associations for the purpose of sharing performance production costs. Agreements among multiple parties are structured as royalty or rental compensation to the Association. Production income is recognized when the Association's contractual obligations are fulfilled.

Advertising is expensed the first time the advertising takes place, except for expenditures related to future opera seasons, which are recognized as deferred production costs and other assets.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Opera is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Opera is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when revenue is recognized. The ASU is effective for fiscal year 2020 and must be applied retrospectively. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Association is required to adopt this ASU for fiscal year 2020. Adoption of this ASU will impact the financial reporting for operating leases and disclosures of the financial statements.

NOTE 2 – HURRICANE HARVEY

On August 25, 2017, Hurricane Harvey hit the Texas coast. Theater District Houston, including the Opera's primary performance, rehearsal, and office space, the Wortham Theater Center, suffered extensive damage, and the Opera relocated to temporary office, rehearsal, and performance spaces. Severe flooding in the basement of the Wortham Theater Center caused significant damage to the Opera property and equipment, as well as fully submerging the costume and wig shops. Additionally, the complete loss of power to the building prevented access to the Opera's information network, database, connectivity, and phone system and caused major interruptions to the Opera's operations.

The Opera was overwhelmed by the encouraging response by the Houston community in the wake of Hurricane Harvey to continue to provide great opera in our city. Through the dedication and hard work of the Opera staff, the Opera opened the 2017-2018 opera season on schedule at the newly formed HGO Resilience Theater located within the George R. Brown Convention Center. The Opera undertook a fundraising campaign, the *HGO Harvey Fund*, to mitigate costs of the temporary relocation, replacement of property, equipment, wigs and costumes, and potential lost revenue. As of July 31, 2018, the Opera recognized approximately $9,891,000 in contributions for the HGO Harvey Fund. Additionally, insurance proceeds of $3.2 million were recognized in fiscal year 2018. During fiscal year 2018, direct costs for relocation to temporary performance, office and costume and wig shop space, increased productions costs, information technology and equipment of approximately $1,694,000 were expensed and $227,000 of costs were capitalized. Additionally, the Opera incurred approximately $1,688,000 of indirect costs primarily related to personnel time focused on the relocation and recovery. Management estimates a loss of approximately $1,236,000 in ticket sales and performance fees for fiscal year 2018. The Opera's management has determined that there will be additional costs associated with Hurricane Harvey's impact, including the replacement of costumes and wigs, a new costume and wig shop and continued lost revenues from ticket sales and performance fees.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2018	2017
Pledges receivable	$ 20,865,761	$ 20,641,104
Discount to present value at 1% to 2.8%	(339,685)	(384,215)
Allowance for uncollectible pledges receivable	(680,000)	(330,000)
Pledges receivable, net	19,846,076	19,926,889
Pledges receivable restricted for endowment, net	(108,804)	(745,637)
Operating pledges receivable, net	$ 19,737,272	$ 19,181,252

Pledges receivable at July 31, 2018 are expected to be collected as follows:

Due in less than one year	$ 9,214,426
Due in one to five years	11,651,335
Total pledges receivable	$ 20,865,761

NOTE 4 – BENEFICIAL INTEREST IN CHARITABLE TRUST

The Association was named a beneficiary of a charitable trust, which was created in 2010 upon the death of the trust settler for a period of 20 years from the date of death. The trust will distribute 8% of the final fair value of the trust, as determined for federal estate tax purposes, to the beneficiaries. The Association receives 30% of that amount each year, or approximately $186,000 per year through 2029.

NOTE 5 – INVESTMENTS

Investments consist of the following:

	2018	2017
Mutual funds	$ 33,385,647	$ 27,857,439
Common stocks	16,866,214	12,880,945
Limited partnership funds	5,121,046	4,529,561
Fixed-income common collective fund	4,565,258	4,733,315
Master limited partnerships – energy	950,447	3,502,401
Total investments at fair value	60,888,612	53,503,661
Cash held in investment accounts	5,709,302	2,071,052
Total investments	$ 66,597,914	$ 55,574,713

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and consists of the following:

	2018	2017
Net realized and unrealized gain on investments	$ 4,086,870	$ 3,810,229
Interest and dividends	1,324,742	1,130,888
Investment management fees	(238,252)	(258,260)
Investment return, net	$ 5,173,360	$ 4,682,857

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at July 31, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Mutual funds:				
Foreign stock	$ 12,001,597			$ 12,001,597
Large-blend stock	8,090,132			8,090,132
Taxable bond	5,755,163			5,755,163
Large-cap stock	4,967,348			4,967,348
Money market	2,378,852			2,378,852
Small-cap stock	192,555			192,555
Common stocks:				
Information technology	5,155,019			5,155,019
Consumer discretionary	4,305,724			4,305,724
Financials	1,693,177			1,693,177
Healthcare	1,466,046			1,466,046
Energy	933,872			933,872
Utilities	875,901			875,901
Industrials	802,964			802,964
Foreign	707,129			707,129
Telecommunications	420,414			420,414
Materials	260,487			260,487
Real estate	202,548			202,548
Consumer staples	42,933			42,933
Fixed-income common collective fund (a)		$ 4,565,258		4,565,258
Master limited partnerships – energy	950,447			950,447
Beneficial interest in charitable trust			$ 1,740,437	1,740,437
Total	$ 51,202,308	$ 4,565,258	$ 1,740,437	57,508,003
Other investments measured at net asset value using the practical expedient:				
Investments in limited partnerships:				
Real estate (b)				2,247,955
Private capital (c)				1,835,220
Event-driven/distressed debt hedge (d)				1,037,871
Total assets measured at fair value				62,629,049
Beneficial interest in charitable trust				(1,740,437)
Total investments measured at fair value				$ 60,888,612

Assets measured at fair value at July 31, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Mutual funds:				
Foreign stock	$ 10,284,345			$ 10,284,345
Large-blend stock	6,970,260			6,970,260
Taxable bond	5,619,188			5,619,188
Large-cap stock	2,887,396			2,887,396
Money market	1,944,796			1,944,796
Small-cap stock	151,454			151,454
Common stocks:				
Information technology	3,831,225			3,831,225
Consumer discretionary	3,780,842			3,780,842
Financials	1,605,384			1,605,384
Healthcare	1,518,658			1,518,658
Energy	296,411			296,411
Utilities	236,074			236,074
Industrials	392,998			392,998
Foreign	350,322			350,322
Telecommunications	47,469			47,469
Materials	377,558			377,558
Real estate	325,079			325,079
Consumer staples	118,925			118,925
Fixed-income common collective fund (a)		$ 4,733,315		4,733,315
Master limited partnerships – energy	3,502,401			3,502,401
Beneficial interest in charitable trust			$ 1,938,786	1,938,786
Total	$ 44,240,785	$ 4,733,315	$ 1,938,786	50,912,886
Other investments measured at net asset value using the practical expedient:				
Investments in limited partnerships:				
Real estate (b)				2,130,386
Private capital (c)				1,501,120
Event-driven/distressed debt hedge (d)				898,055
Total assets measured at fair value				55,442,447
Beneficial interest in charitable trust				(1,938,786)
Total investments measured at fair value				$ 53,503,661

(a) The primary investment objective of the fund is to hold a portfolio representative of the overall United States bond and debt market, as characterized by the Barclays Intermediate Aggregate Bond Index. This fund may participate in securities lending. Redemptions may be made monthly and require 30-days' written notice.

(b) This fund invests in real estate and real estate joint ventures. Redemptions may be made quarterly and require 90-days' written notice. There is no lock-up period; however, withdrawals are limited to available cash held by the fund and may be suspended until such time as adequate liquidity exists to pay the redemption.

(c) This partnership was organized to invest in three underlying partnership funds that invest in other collective investment funds investing in alternative assets, including primarily U. S. funds that focus on both early and later-stage venture capital investments, investments focused on small, mid-size and large domestic buyout transactions, and investments primarily focusing on non-U. S. buyouts, expansion capital, turnaround, mezzanine and distressed investment partnerships. The partnership will be wound-up upon the dissolution of the last underlying fund to dissolve, or such earlier time as determined by the General Partner, at its sole discretion. No redemptions are allowed from the fund without the prior written consent of the General Partner. Due to the illiquid long-term nature of the underlying investments, future redemption periods are unknown. The private capital partnership fund has an unfunded commitment of $461,350 at July 31, 2018.

(d) This fund seeks to achieve superior absolute returns by investing in event-driven equity securities and defaulted debt among special situations primarily in the small and micro-cap markets. Redemptions may generally be made quarterly upon 30-days' written notice, but may be suspended by the fund managers under certain conditions.

Management determines valuation policies utilizing information provided by its investment advisers, custodians, and fund managers. Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the published net asset value of shares held at year end.
- *Common stocks* and *master limited partnerships* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Fixed-income common collective fund* is valued at net asset values as determined by the issuer or investment manager based on the fair value of the underlying investments.
- *Limited partnerships* are valued at net asset value as a practical expedient, as provided by the fund managers based on the net asset value of the underlying investments.
- *Beneficial interest in charitable trust* is estimated as the present value of the expected future cash flow payments. Significant unobservable inputs include the risk-adjusted discount rate of 3% used at July 31, 2018 and 2.3% used at July 31, 2017.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets are as follows:

Balance at July 31, 2016	$ 2,172,388
Redemptions	(186,058)
Contribution	(47,544)
Balance at July 31, 2017	1,938,786
Redemptions	(186,059)
Contribution	(12,290)
Balance at July 31, 2018	$ 1,740,437

NOTE 7 – PROPERTY

Property consists of the following:

	2018	2017
Leasehold improvements	$ 2,036,913	$ 1,981,984
Production and music equipment	992,868	816,452
Office furnishings and equipment	446,263	461,868
Vehicles	227,228	183,128
Total property, at cost	3,703,272	3,443,432
Accumulated depreciation	(3,200,021)	(3,035,985)
Property, net	$ 503,251	$ 407,447

NOTE 8 – NOTE PAYABLE

The Association has a $4 million bank line of credit due April 15, 2019, with interest payable monthly at the bank's prime interest rate (5% at July 31, 2018 and 3.75% at July 31, 2017). The line of credit is secured by the Endowment investments. Interest expense was $12,788 and $67,914 in 2018 and 2017, respectively. There are no amounts outstanding at July 31, 2018.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Leases – The Association leases office, storage and rehearsal space, and equipment under noncancellable operating leases. Minimum future lease payments are as follows:

2019	$ 346,151
2020	88,627
2021	39,736
2022	69,587
2023	38,807
Total minimum future lease payments	$ 582,908

In 1987, the Association entered into a lease on a non-exclusive basis with the City of Houston for the use of the Wortham Center. The initial term of the lease is 30 years and can be renewed for an additional 30-year term. Annual lease payments are $199,061. The lease can be cancelled with six-months' notice by the Association, and is therefore not included in minimum future lease payments.

Rental expense recognized is $1,068,267 in 2018 and $916,021 in 2017.

Artists' contracts – The Association has compensation contracts with various artists for future performances. If the Association cancels these performances, it may be liable to pay the related artists all or a portion of the agreed compensation. As of July 31, 2018, such contracts with artists require potential future compensation as follows:

2019	$ 5,009,058
2020	1,789,248
2021	548,750
2022	827,500
Total	$ 8,174,556

NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2018	2017
Property, net	$ 503,251	$ 407,447
Board-designated reserve	3,200,000	
Board-designated endowment funds	1,375,612	1,063,703
Undesignated	(1,465,312)	(2,856,508)
Total unrestricted net assets	$ 3,613,551	$ (1,385,358)

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Restricted for future opera productions	$ 18,934,860	$ 20,401,720
Accumulated earnings on permanent endowment *(Note 12)*	12,169,111	9,648,432
Restricted for mitigation of Hurricane Harvey impact	5,000,000	
Beneficial interest in charitable trust	1,740,437	1,938,786
Total temporarily restricted net assets	$ 37,844,408	$ 31,988,938

NOTE 12 – ENDOWMENT

The Board of Trustees of the Endowment has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 Endowment classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Endowment considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Opera and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Opera
- The investment policies of the Endowment

Endowment assets include donor-restricted funds that the Endowment must hold in perpetuity, as well as board-designated endowment funds of the Endowment. The Board of Trustees of the Endowment is charged with preserving the corpus of the endowment, growing the total value of the endowment through investments and gifts, and financially supporting the mission and activities of the Opera.

Spending Policy

During fiscal year 2018, the Endowment distributed 4.6% of the average market value of the Endowment's funds under management for the preceding twelve quarters (beginning January 31 of the prior fiscal year and preceding quarters). Additionally, funds are appropriated for administrative costs of the planned giving department. Beginning in fiscal year 2015, the annual distribution rate was reduced from 5% by one-tenth of a percent and will continue to be reduced by 1% each year for five consecutive years until it reaches 4.5% in fiscal year 2019. Excluded from funds under management will be any restricted funds that do not qualify as distributable for the upcoming year and the quasi endowment fund balance, which has a separate purpose and is not included in the calculation. In conjunction with the authorization of the annual distribution, the Board of Trustees of the Endowment will review this policy in light of current and expected market conditions and rate of inflation. Other distributions may be made from time to time at the discretion of the Board of Trustees of the Endowment.

Investment Policy

Endowment funds are maintained in investment accounts which are managed by the Endowment's Board of Trustees with oversight provided by an independent financial consultant. Investment decisions follow guidance provided in an investment policy approved by the Board of Trustees of the Endowment. The investment policies attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. The Endowment expects its endowment funds, over time, to provide an average rate-of-return of approximately five percentage points more than the rate of inflation. To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places an emphasis on a blend of equity-based investments and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Loan to Association

The Endowment has established a revolving line of credit with the Association bearing interest at 4% in fiscal year 2018 and 3.25% in fiscal year 2017, and is considered a short-term, fixed-income investment within the Endowment portfolio allocation. Interest income of $1,948 and $1,830 was recognized by the Endowment in fiscal years 2018 and 2017, respectively. No amount was outstanding on the line of credit from the Endowment to the Association at July 31, 2018. The $1,000,000 outstanding at July 31, 2017 has been eliminated in consolidation.

Endowment net asset composition as of July 31, 2018:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds:				
General operating		$ 3,709,287	$ 15,064,232	$ 18,773,519
Mainstage productions		2,332,897	9,405,453	11,738,350
Studio		768,351	5,310,658	6,079,009
General director chair		611,230	4,000,000	4,611,230
Managing director chair		265,814	3,000,000	3,265,814
New productions		1,100,947	1,507,674	2,608,621
Electronic media		397,293	2,000,000	2,397,293
Concert of Arias		621,561	1,352,218	1,973,779
Education		429,304	1,415,427	1,844,731
Music director chair		532,804	1,000,000	1,532,804
Fund for Great Artists		464,912	1,000,000	1,464,912
Patron services		134,406	1,244,910	1,379,316
Concert master chair		220,932	1,000,000	1,220,932
Chorus master chair		99,315	1,000,000	1,099,315
High school voice studio		170,535	788,100	958,635
Visiting artist chair		139,021	300,000	439,021
Spring Opera Festival		40,377	250,000	290,377
Studio guest coach chair		75,851	148,923	224,774
Vocal coach chair		23,920	125,000	148,920
Special needs		10,926	43,550	54,476
Wagner opera performances		19,428	5,850	25,278
Total donor-restricted endowment funds		12,169,111	49,961,995	62,131,106
Beneficial interest in charitable trust		1,740,437		1,740,437
Board-designated endowment funds	$ 1,375,612			1,375,612
Endowment net assets	$ 1,375,612	$ 13,909,548	$ 49,961,995	$ 65,247,155

Endowment net asset composition as of July 31, 2017:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds:				
General operating		$ 3,061,005	$ 14,929,759	$ 17,990,764
Mainstage productions		1,911,090	9,205,201	11,116,291
Studio		502,883	5,415,628	5,918,511
General director chair		414,796	3,999,975	4,414,771
New productions		1,012,565	1,507,674	2,520,239
Electronic media		318,652	2,000,000	2,318,652
Concert of Arias		556,923	1,352,218	1,909,141
Education		356,914	1,415,427	1,772,341
Music director chair		482,623	1,000,000	1,482,623
Fund for Great Artists		416,608	1,000,000	1,416,608
Patron services		45,678	1,233,410	1,279,088
Concert master chair		176,501	1,000,000	1,176,501
Chorus master chair		12,971	1,000,000	1,012,971
High school voice studio		111,009	675,600	786,609
Visiting artist chair		124,426	300,000	424,426
Spring Opera Festival		30,866	250,000	280,866
Studio guest coach chair		67,633	148,923	216,556
Vocal coach chair		19,045	125,000	144,045
Special needs		8,872	43,550	52,422
Wagner opera performances		17,372	5,850	23,222
Total donor-restricted endowment funds		9,648,432	46,608,215	56,256,647
Beneficial interest in charitable trust		1,938,786		1,938,786
Board-designated endowment funds	$ 1,063,703			1,063,703
Endowment net assets	$ 1,063,703	$ 11,587,218	$ 46,608,215	$ 59,259,136

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 TUPMIFA requires the Endowment to retain as a fund of perpetual duration. Deficiencies of this nature result from unfavorable market fluctuations and are reported in unrestricted net assets as an aggregate deficiency of the fair value of net endowment assets over permanently restricted net assets.

Changes in net assets of the endowment funds are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, July 31, 2016	$ 841,166	$ 11,226,028	$ 45,752,337	$ 57,819,531
Contributions and other additions	4,416	(47,544)	780,878	737,750
Investment return:				
Interest and dividends	34,553	1,089,020		1,123,573
Net realized and unrealized gain	69,236	3,712,630		3,781,866
Investment management fees	(4,897)	(253,363)		(258,260)
Net investment return	98,892	4,548,287		4,647,179
Expenses	(14,837)			(14,837)
Release of time restriction	186,059	(186,059)		
Donor redesignation			75,000	75,000
Appropriations for expenditure	(51,993)	(3,953,494)		(4,005,487)
Endowment net assets, July 31, 2017	1,063,703	11,587,218	46,608,215	59,259,136
Contributions and other additions	56,810	(12,290)	3,353,780	3,398,300
Investment return:				
Interest and dividends	40,118	1,273,189		1,313,307
Net realized and unrealized gain	80,803	3,986,188		4,066,991
Investment management fees	(5,142)	(233,110)		(238,252)
Net investment return	115,779	5,026,267		5,142,046
Expenses	(13,894)			(13,894)
Release of time restriction	186,057	(186,057)		
Appropriations for expenditure	(32,843)	(2,505,590)		(2,538,433)
Endowment net assets, July 31, 2018	$ 1,375,612	$ 13,909,548	$ 49,961,995	$ 65,247,155

NOTE 13 – CONCENTRATION OF LABOR

The Association has entered into six union contracts, one of which is effective through 2020, two through 2019, and three through 2018. Approximately 71% of the Association's employees are members of these unions.

NOTE 14 – RETIREMENT PLAN

The Association has a defined contribution §403(b) retirement plan covering substantially all employees who have completed one year of service. The Association matches 100% of the eligible participating employee's contribution up to 2% of the employee's annual salary. The Association contributed $98,625 in 2018 and $84,957 in 2017 to the plan.

NOTE 15 – MULTIEMPLOYER PENSION PLAN

The Association is a participating employer in a trustee-managed, multiemployer defined benefit pension plan for employees who are covered under the collective bargaining agreement of the Houston

Professional Musicians Association (Local Union #65-699 of the American Federation of Musicians). The plan generally provides retirement benefits to the union as a percentage of wages earned at the Association each pay period. The multiemployer pension plan is managed by a board of trustees with equal representation from the union and employers. Although the Association is not represented on the board of trustees, other contributing employers are members of the board of trustees. Contributions totaling $139,097 in 2018 and $142,397 in 2017 were charged to pension expense for ongoing participation in the pension plan. The Association's contributions do not represent more than 5% of the pension plan's total contributions. Additionally, there have been no significant changes that affect the comparability of 2018 and 2017 contributions.

The risks of participating in the multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Association chooses to stop participating in the multiemployer pension plan, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiation of the collective bargaining agreement, the Association may discuss and negotiate for complete or partial withdrawal from the multiemployer pension plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer pension plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Association's change in net assets in the period of the withdrawal. The Association has no plans to withdraw from its multiemployer pension plan.

The following presents information about the Association's multiemployer pension plan as of and for the years ended July 31, 2018 and 2017:

NAME OF PENSION FUND	EIN AND PLAN NUMBER, IF AVAILABLE	PENSION PROTECTION ACT ZONE STATUS		FIP/RP STATUS	CONTRIBUTIONS FOR THE YEAR ENDED JULY 31,		SURCHARGE IMPOSED	EXPIRATION OF COLLECTIVE BARGAINING AGREEMENT
		2018	2017		2018	2017		
American Federation of Musicians and Employers' Pension Fund	51-6120204 Plan No. 001	Red 3/31/18	Red 3/31/17	Implemented	$139,097	$142,397	Yes	8/31/18

Due to the plan's "critical" status under the Pension Protection Act of 2006, a rehabilitation plan was adopted on April 15, 2010 and updated on June 27, 2016 requiring an increase in the contribution rate from 10% of scale wages prior to adoption of the rehabilitation plan to a current rate of 10.90% of scale wages at July 31, 2018.

The Association also participates in other multiemployer defined contribution pension and health and welfare plans under various collective bargaining agreements. Total contributions to these plans were $431,267 in 2018 and $358,865 in 2017.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2018

	ASSOCIATION OPERATING FUND	ASSOCIATION RESTRICTED FUND	ASSOCIATION PLANT FUND	ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
ASSETS							
Cash	$ 4,128,584				$ 1,500		$ 4,130,084
Accounts receivable	618,188						618,188
Pledges receivable, net	3,750,790	$ 15,986,482		$ 108,804			19,846,076
Deferred production costs and other assets	2,143,704				64,949		2,208,653
Beneficial interest in charitable trust				1,740,437			1,740,437
Investments				66,597,914			66,597,914
Property, net			$ 503,251				503,251
Due from affiliates and other funds		7,948,378			30,829	$ (7,979,207)	
TOTAL ASSETS	$ 10,641,266	$ 23,934,860	$ 503,251	$ 68,447,155	$ 97,278	$ (7,979,207)	$ 95,644,603
LIABILITIES AND NET ASSETS							
Liabilities:							
Accounts payable and accrued expenses	$ 490,980						$ 490,980
Accrued salaries and benefit costs	414,494						414,494
Accrued production expense	195,783						195,783
Due to affiliates	7,979,207					$ (7,979,207)	
Deferred subscription revenue	2,986,771						2,986,771
Deferred co-production and set rental revenue	136,621						136,621
Total liabilities	12,203,856					(7,979,207)	4,224,649
Net assets:							
Unrestricted	(1,562,590)		$ 503,251	$ 4,575,612	$ 97,278		3,613,551
Temporarily restricted		$ 23,934,860		13,909,548			37,844,408
Permanently restricted				49,961,995			49,961,995
Total net assets	(1,562,590)	23,934,860	503,251	68,447,155	97,278		91,419,954
TOTAL LIABILITIES AND NET ASSETS	$ 10,641,266	$ 23,934,860	$ 503,251	$ 68,447,155	$ 97,278	$ (7,979,207)	$ 95,644,603

Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2017

	ASSOCIATION OPERATING FUND	ASSOCIATION RESTRICTED FUND	ASSOCIATION PLANT FUND	ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
ASSETS							
Cash	$ 179,403				$ 1,500		$ 180,903
Accounts receivable	697,424						697,424
Pledges receivable, net	3,570,010	$ 15,611,242		$ 745,637			19,926,889
Deferred production costs and other assets	2,187,367				63,189		2,250,556
Beneficial interest in charitable trust				1,938,786			1,938,786
Investments				56,574,713		$ (1,000,000)	55,574,713
Property, net			$ 407,447				407,447
Due from affiliates and other funds		4,790,478			68,463	(4,858,941)	
TOTAL ASSETS	$ 6,634,204	$ 20,401,720	$ 407,447	$ 59,259,136	$ 133,152	$ (5,858,941)	$ 80,976,718
LIABILITIES AND NET ASSETS							
Liabilities:							
Accounts payable and accrued expenses	$ 202,812						$ 202,812
Accrued salaries and benefit costs	345,763						345,763
Accrued production expense	205,645						205,645
Due to affiliates	4,858,941					$ (4,858,941)	
Deferred subscription revenue	2,969,476						2,969,476
Deferred co-production and set rental revenue	41,227						41,227
Note payable	1,000,000					(1,000,000)	
Total liabilities	9,623,864					(5,858,941)	3,764,923
Net assets:							
Unrestricted	(2,989,660)		$ 407,447	$ 1,063,703	$ 133,152		(1,385,358)
Temporarily restricted		$ 20,401,720		11,587,218			31,988,938
Permanently restricted				46,608,215			46,608,215
Total net assets	(2,989,660)	20,401,720	407,447	59,259,136	133,152		77,211,795
TOTAL LIABILITIES AND NET ASSETS	$ 6,634,204	$ 20,401,720	$ 407,447	$ 59,259,136	$ 133,152	$ (5,858,941)	$ 80,976,718

Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2018

	ASSOCIATION OPERATING FUND	ASSOCIATION RESTRICTED FUND	ASSOCIATION PLANT FUND	ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
REVENUE:							
Contributions	$ 12,209,371	$ 9,907,843		$ 3,348,300	$ 16,951		$ 25,482,465
Ticket sales and performance fees	4,574,940				986		4,575,926
Special events	1,270,255	1,767,406			47,871		3,085,532
Cost of direct donor benefits	(465,970)				(13,686)		(479,656)
Investment return, net	31,314			5,142,046			5,173,360
Production and other income	1,195,320		$ 15,087		8,633		1,219,040
Insurance proceeds	3,200,000						3,200,000
Time and purpose restrictions met	7,065,326	(7,065,326)					
Redesignations for special events	1,076,783	(1,076,783)					
Net appropriation from endowment	2,488,433			(2,488,433)			
Funds designated by board for reserve	(3,200,000)			3,200,000			
Total revenue	29,445,772	3,533,140	15,087	9,201,913	60,755		42,256,667
EXPENSES:							
Program services	19,173,004		142,143		6,262		19,321,409
Fundraising	3,554,883		12,134		38,994		3,606,011
Marketing and advertising	3,425,615		91,250		13,612		3,530,477
Management and general	1,549,323		18,156	13,894	9,238		1,590,611
Total expenses	27,702,825		263,683	13,894	68,106		28,048,508
OPERATING INCOME (LOSS)	1,742,947	3,533,140	(248,596)	9,188,019	(7,351)		14,208,159
Transfers (to) from affiliates	(315,877)		344,400		(28,523)		
CHANGES IN NET ASSETS	1,427,070	3,533,140	95,804	9,188,019	(35,874)		14,208,159
Net assets, beginning of year	(2,989,660)	20,401,720	407,447	59,259,136	133,152		77,211,795
Net assets, end of year	$ (1,562,590)	$ 23,934,860	$ 503,251	$ 68,447,155	$ 97,278	$ 0	$ 91,419,954

Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2017

	ASSOCIATION						
	OPERATING FUND	RESTRICTED FUND	PLANT FUND	ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
REVENUE:							
Contributions	$ 7,874,407	$ 7,607,976		$ 737,750	$ 37,988		$ 16,258,121
Ticket sales and performance fees	4,637,186				949		4,638,135
Special events	1,681,100	653,400			63,542		2,398,042
Cost of direct donor benefits	(406,961)				(22,187)		(429,148)
Investment return, net	35,678			4,647,179			4,682,857
Production and other income	1,380,130				67,731		1,447,861
Time and purpose restrictions met	5,855,250	(5,855,250)					
Redesignations for special events	752,075	(752,075)					
Net appropriation from endowment	3,930,487			(3,930,487)			
Total revenue	25,739,352	1,654,051		1,454,442	148,023		28,995,868
EXPENSES:							
Program services	17,519,577		$ 157,150		4,513		17,681,240
Fundraising	3,459,391		12,744		98,276		3,570,411
Marketing and advertising	3,093,572		91,038		12,117		3,196,727
Management and general	1,782,821		20,419	14,837	8,544		1,826,621
Total expenses	25,855,361		281,351	14,837	123,450		26,274,999
OPERATING INCOME (LOSS)	(116,009)	1,654,051	(281,351)	1,439,605	24,573		2,720,869
Transfers (to) from affiliates	(43,463)		74,095		(30,632)		
CHANGES IN NET ASSETS	(159,472)	1,654,051	(207,256)	1,439,605	(6,059)		2,720,869
Net assets, beginning of year	(2,830,188)	18,747,669	614,703	57,819,531	139,211		74,490,926
Net assets, end of year	$ (2,989,660)	$ 20,401,720	$ 407,447	$ 59,259,136	$ 133,152	$ 0	$ 77,211,795