

**Houston Grand Opera Association, Inc.**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended July 31, 2015 and 2014

# 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, 2015 and 2014 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, 2015 and 2014 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, 2015 and 2014 and consolidating statements of activities for the years ended July 31, 2015 and 2014 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*

October 13, 2015

## Houston Grand Opera Association, Inc.

Consolidated Statements of Financial Position as of July 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 850,212	\$ 932,125
Accounts receivable	343,250	753,224
Operating pledges receivable, net (Note 2)	17,006,569	12,639,625
Deferred production costs and other assets	3,007,795	2,762,672
Beneficial interest in charitable trust (Notes 3 and 5)	2,206,868	2,279,762
Pledges receivable restricted for endowment, net (Note 2)	1,489,002	2,436,668
Investments (Notes 4 and 5)	53,074,303	50,334,806
Property, net (Note 6)	<u>805,789</u>	<u>838,950</u>
TOTAL ASSETS	<u>\$ 78,783,788</u>	<u>\$ 72,977,832</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 257,838	\$ 441,832
Accrued salaries and benefit costs	418,946	431,109
Accrued production expense	642,945	605,227
Deferred subscription revenue	3,291,954	3,351,720
Deferred co-production and set rental revenue	175,970	489,371
Note payable (Note 7)	<u>300,000</u>	<u>                    </u>
Total liabilities	<u>5,087,653</u>	<u>5,319,259</u>
Commitments and contingencies (Note 8)		
Net assets (Note 11):		
Unrestricted (Note 9)	(1,057,226)	(1,201,345)
Temporarily restricted (Note 10)	31,370,647	28,326,267
Permanently restricted	<u>43,382,714</u>	<u>40,533,651</u>
Total net assets	<u>73,696,135</u>	<u>67,658,573</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 78,783,788</u>	<u>\$ 72,977,832</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2015

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 8,184,139	\$ 10,081,768	\$ 2,607,089	\$ 20,872,996
Ticket sales and performance fees	6,094,277			6,094,277
Special events	1,715,370	443,550		2,158,920
Cost of direct donor benefits	(593,692)			(593,692)
Investment return, net ( <i>Note 4</i> )	36,752	1,618,903		1,655,655
Production income	793,838			793,838
Other income	<u>327,555</u>			<u>327,555</u>
Total revenue	16,558,239	12,144,221	2,607,089	31,309,549
Net assets released from restrictions:				
Time and purpose restrictions	5,773,234	(5,773,234)		
Endowment appropriation	2,125,624	(2,125,624)		
Net transfer to/from Endowment	(241,974)		241,974	
Redesignation for special events	<u>1,200,983</u>	<u>(1,200,983)</u>		
Total	<u>25,416,106</u>	<u>3,044,380</u>	<u>2,849,063</u>	<u>31,309,549</u>
EXPENSES:				
Program services:				
Mainstage	15,379,597			15,379,597
Studio	987,529			987,529
Education	<u>914,339</u>			<u>914,339</u>
Total program services	17,281,465			17,281,465
Marketing and advertising	3,143,904			3,143,904
Fundraising	3,149,267			3,149,267
Management and general	<u>1,697,351</u>			<u>1,697,351</u>
Total expenses	<u>25,271,987</u>			<u>25,271,987</u>
CHANGES IN NET ASSETS	144,119	3,044,380	2,849,063	6,037,562
Net assets, beginning of year	<u>(1,201,345)</u>	<u>28,326,267</u>	<u>40,533,651</u>	<u>67,658,573</u>
Net assets, end of year	<u>\$ (1,057,226)</u>	<u>\$ 31,370,647</u>	<u>\$ 43,382,714</u>	<u>\$ 73,696,135</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2014

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 9,049,862	\$ 6,216,171	\$ 663,709	\$ 15,929,742
Ticket sales and performance fees	6,047,959			6,047,959
Special events	2,752,149	856,800		3,608,949
Cost of direct donor benefits	(459,749)			(459,749)
Investment return, net ( <i>Note 4</i> )	108,731	5,028,211		5,136,942
Production income	1,647,571			1,647,571
Other income	<u>375,946</u>			<u>375,946</u>
Total revenue	19,522,469	12,101,182	663,709	32,287,360
Net assets released from restrictions:				
Time and purpose restrictions	6,004,918	(6,004,918)		
Endowment appropriation	2,009,230	(2,009,230)		
Net transfer to/from Endowment	(500)		500	
Redesignation for special events	<u>591,483</u>	<u>(591,483)</u>		
Total	<u>28,127,600</u>	<u>3,495,551</u>	<u>664,209</u>	<u>32,287,360</u>
EXPENSES:				
Program services:				
Mainstage	17,537,853			17,537,853
Studio	1,046,834			1,046,834
Education	<u>1,119,613</u>			<u>1,119,613</u>
Total program services	19,704,300			19,704,300
Marketing and advertising	3,121,713			3,121,713
Fundraising	3,243,069			3,243,069
Management and general	<u>1,882,715</u>			<u>1,882,715</u>
Total expenses	<u>27,951,797</u>			<u>27,951,797</u>
CHANGES IN NET ASSETS	175,803	3,495,551	664,209	4,335,563
Net assets, beginning of year	<u>(1,377,148)</u>	<u>24,830,716</u>	<u>39,869,442</u>	<u>63,323,010</u>
Net assets, end of year	<u>\$ (1,201,345)</u>	<u>\$ 28,326,267</u>	<u>\$ 40,533,651</u>	<u>\$ 67,658,573</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Grand Opera Association, Inc.

### Consolidated Statements of Cash Flows for the years ended July 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 6,037,562	\$ 4,335,563
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(969,592)	(4,393,850)
Contributions restricted for endowment	(2,607,089)	(663,709)
Depreciation	232,941	280,326
Changes in operating assets and liabilities:		
Accounts receivable	409,974	(609,250)
Operating pledges receivable	(4,366,944)	(821,474)
Deferred production costs and other assets	(245,123)	(866,027)
Accounts payable and accrued expenses	(158,439)	701,507
Deferred revenue	<u>(373,167)</u>	<u>622,091</u>
Net cash used by operating activities	<u>(2,039,877)</u>	<u>(1,414,823)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(16,040,214)	(8,678,857)
Proceeds from sale of investments	13,171,833	10,480,473
Net change in cash and money market mutual funds held as investments	1,098,476	(2,724,522)
Change in beneficial interest in charitable trust	72,894	106,032
Purchases of property	<u>(199,780)</u>	<u>(81,717)</u>
Net cash used by investing activities	<u>(1,896,791)</u>	<u>(898,591)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	4,500,000	2,150,000
Payments on note payable	(4,200,000)	(2,150,000)
Proceeds from contributions restricted for endowment	<u>3,554,755</u>	<u>2,243,589</u>
Net cash provided by financing activities	<u>3,854,755</u>	<u>2,243,589</u>
<b>NET CHANGE IN CASH</b>	<b>(81,913)</b>	<b>(69,825)</b>
Cash, beginning of year	<u>932,125</u>	<u>1,001,950</u>
Cash, end of year	<u>\$ 850,212</u>	<u>\$ 932,125</u>
<i>Supplemental disclosure of cash flow information:</i>		
Donated securities	\$475,314	\$1,606,121

*See accompanying notes to consolidated financial statements.*

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## Houston Grand Opera Association, Inc.

### Consolidated Statement of Functional Expenses for the year ended July 31, 2015

	<u>MAINSTAGE</u>	<u>STUDIO</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MARKETING AND ADVERTISING</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL EXPENSES</u>
Salaries and wages	\$ 7,529,685	\$ 600,020	\$ 489,607	\$ 8,619,312	\$ 1,279,236	\$ 1,571,408	\$ 976,233	\$ 12,446,189
Payroll taxes and benefits	1,624,126	169,821	86,534	1,880,481	252,429	289,162	246,098	2,668,170
Professional fees	2,980,491	133,169	198,935	3,312,595	129,993	168,122	95,015	3,705,725
Production materials	1,116,015	2,677	6,412	1,125,104				1,125,104
Advertising and public relations	4,920	1,368	21,972	28,260	866,396	207,574	7,853	1,110,083
Building and storage rentals	731,431	6,862	4,054	742,347	64,218	67,073	22,118	895,756
Office supplies and expenses	71,110	4,600	13,991	89,701	258,705	102,850	72,099	523,355
Travel	432,801	60,339	63,127	556,267	9,184	34,437	103,760	703,648
Conferences, meetings and events	23,742	6,464	18,251	48,457	24,368	437,210	44,490	554,525
Production shipping costs	325,174			325,174				325,174
Insurance	162,767			162,767	37,636	27,157	21,779	249,339
Depreciation	167,500			167,500	21,505	16,433	27,503	232,941
Bank credit card fees			14	14	148,615	73,190	10,207	232,026
Equipment	86,313	616	6,300	93,229	15,432	27,951	11,641	148,253
Information technology	24,626			24,626	34,809	30,975	23,224	113,634
Royalties	98,896	1,593	2,182	102,671				102,671
Interest							35,331	35,331
Other			2,960	2,960	1,378	95,725		100,063
Total expenses	<u>\$ 15,379,597</u>	<u>\$ 987,529</u>	<u>\$ 914,339</u>	<u>\$ 17,281,465</u>	<u>\$ 3,143,904</u>	<u>\$ 3,149,267</u>	<u>\$ 1,697,351</u>	25,271,987
Cost of direct donor benefits								593,692
Investment management fees								<u>265,778</u>
Total expenditures								<u>\$ 26,131,457</u>

*See accompanying notes to consolidated financial statements.*

## Houston Grand Opera Association, Inc.

### Consolidated Statement of Functional Expenses for the year ended July 31, 2014

	<u>MAINSTAGE</u>	<u>STUDIO</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MARKETING AND ADVERTISING</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL EXPENSES</u>
Salaries and wages	\$ 8,574,464	\$ 637,741	\$ 563,468	\$ 9,775,673	\$ 1,273,444	\$ 1,564,951	\$ 991,495	\$ 13,605,563
Payroll taxes and benefits	1,784,834	178,704	95,484	2,059,022	248,614	284,734	270,291	2,862,661
Professional fees	3,220,903	138,892	302,766	3,662,561	195,334	233,232	149,206	4,240,333
Production materials	1,367,344	1,636	27,146	1,396,126				1,396,126
Advertising and public relations	22,272	6,039	21,952	50,263	752,579	199,175	7,540	1,009,557
Building and storage rentals	712,291	9,175	3,318	724,784	59,795	60,943	20,684	866,206
Office supplies and expenses	74,368	2,697	17,219	94,284	225,694	96,252	106,190	522,420
Travel	740,887	62,916	68,423	872,226	15,021	35,331	166,606	1,089,184
Conferences, meetings and events	14,803	8,059	11,784	34,646	21,713	498,164	24,034	578,557
Production shipping costs	398,830			398,830				398,830
Insurance	156,441			156,441	33,429	25,347	21,027	236,244
Depreciation	167,240			167,240	62,259	20,818	30,009	280,326
Bank credit card fees			10	10	176,494	77,168	11,392	265,064
Equipment	87,950	810	5,476	94,236	20,520	49,201	9,903	173,860
Information technology	25,608			25,608	36,817	31,770	20,895	115,090
Royalties	120,376	165	2,567	123,108				123,108
Interest							53,443	53,443
Other	<u>69,242</u>			<u>69,242</u>		<u>65,983</u>		<u>135,225</u>
Total expenses	<u>\$ 17,537,853</u>	<u>\$ 1,046,834</u>	<u>\$ 1,119,613</u>	<u>\$ 19,704,300</u>	<u>\$ 3,121,713</u>	<u>\$ 3,243,069</u>	<u>\$ 1,882,715</u>	27,951,797
Cost of direct donor benefits								459,749
Investment management fees								<u>204,265</u>
Total expenditures								<u>\$ 28,615,811</u>

*See accompanying notes to consolidated financial statements.*

## **Houston Grand Opera Association, Inc.**

Notes to Consolidated Financial Statements for the years ended July 31, 2015 and 2014

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### **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, education and outreach, and Houston Grand Opera Studio. Education and outreach initiates and develops educational programs and relationships for children, teachers, and the general public including pre-curtain lectures, artist presentations, high school nights at mainstage performances, and student matinees, and provides for the development of opera education materials and programs for the visually impaired. 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 profession.

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).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Opera and recognize a tax liability (or asset) if the Opera has taken a position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Opera, and has concluded that as of July 31, 2015, there are no positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Opera files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. Management believes it is no longer subject to examinations of returns for tax years ended before July 31, 2012.

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 collectability 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. Changes in the beneficial interest are 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 appreciation 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 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 \$206,817 and \$325,730 in 2015 and 2014, respectively, consisting primarily of mainstage travel and 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent pronouncement – In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities That Calculated Net Asset Value per Share (or Its Equivalent)*. The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the practical expedient. The ASU further removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the practical expedient. This ASU is effective for annual periods beginning after December 15, 2016. The Association does not expect the adoption of the ASU to have a material effect on its financial statements.

## **NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable are as follows:

	<u>2015</u>	<u>2014</u>
Pledges receivable	\$ 19,086,189	\$ 15,281,524
Discount to present value at 0.3% to 2.41%	(280,618)	(65,792)
Allowance for uncollectible pledges receivable	<u>(310,000)</u>	<u>(139,439)</u>
Pledges receivable, net	18,495,571	15,076,293
Pledges receivable restricted for endowment, net	<u>(1,489,002)</u>	<u>(2,436,668)</u>
Operating pledges receivable, net	<u>\$ 17,006,569</u>	<u>\$ 12,639,625</u>

Pledges receivable at July 31, 2015 are expected to be collected as follows:

Due in less than one year	\$ 8,704,003
Due in one to five years	<u>10,382,186</u>
Total pledges receivable	<u>\$ 19,086,189</u>

### NOTE 3 – 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 4 – INVESTMENTS

Investments consist of the following:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 19,468,392	\$ 13,159,176
Common stocks	15,526,838	14,300,204
Fixed-income common collective fund	6,849,587	7,799,143
Master limited partnerships	4,791,729	4,473,118
Limited partnership funds	<u>4,467,501</u>	<u>8,632,214</u>
Total investments at fair value	51,104,047	48,363,855
Cash held in investment accounts	<u>1,970,256</u>	<u>1,970,951</u>
Total investments	<u>\$ 53,074,303</u>	<u>\$ 50,334,806</u>

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:

	<u>2015</u>	<u>2014</u>
Net realized and unrealized gain on investments	\$ 969,592	\$ 4,393,850
Interest and dividends	924,276	900,482
Royalty income	27,565	46,875
Investment management fees	<u>(265,778)</u>	<u>(204,265)</u>
Investment return, net	<u>\$ 1,655,655</u>	<u>\$ 5,136,942</u>

## NOTE 5 – 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, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Large-blend stock	\$ 6,173,765			\$ 6,173,765
Foreign stock	5,202,110			5,202,110
Money market	4,607,533			4,607,533
Taxable bond	1,973,692			1,973,692
Large-cap stock	1,511,292			1,511,292
Common stocks:				
Information technology	4,299,267			4,299,267
Consumer discretionary	3,096,223			3,096,223
Foreign	2,193,792			2,193,792
Health care	1,903,388			1,903,388
Financials	1,819,417			1,819,417
Industrials	996,338			996,338
Consumer staples	415,414			415,414
Energy	347,364			347,364
Materials	255,707			255,707
Utilities	185,153			185,153
Telecommunication services	14,775			14,775
Fixed-income common collective fund (a)		\$ 6,849,587		6,849,587
Master limited partnerships – energy	4,791,729			4,791,729
Limited partnership funds:				
Real estate (b)			\$ 2,714,088	2,714,088
Private capital (c)			951,780	951,780
Event-driven/distressed debt hedge (d)			801,633	801,633
Total investments measured at fair value	39,786,959	6,849,587	4,467,501	51,104,047
Beneficial interest in charitable trust			2,206,868	2,206,868
Total assets measured at fair value	<u>\$ 39,786,959</u>	<u>\$ 6,849,587</u>	<u>\$ 6,674,369</u>	<u>\$ 53,310,915</u>

Assets measured at fair value at July 31, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Foreign stock	\$ 5,475,346			\$ 5,475,346
Money market	5,705,314			5,705,314
Taxable bond	500,000			500,000
Large-cap stock	1,478,516			1,478,516
Common stocks:				
Information technology	4,298,179			4,298,179
Consumer discretionary	1,884,019			1,884,019
Foreign	2,264,192			2,264,192
Health care	1,598,785			1,598,785
Financials	1,632,211			1,632,211
Industrials	1,158,966			1,158,966
Consumer staples	106,319			106,319
Energy	775,192			775,192
Materials	485,725			485,725
Utilities	65,200			65,200
Telecommunication services	31,416			31,416
Fixed-income common collective fund (a)		\$ 7,799,143		7,799,143
Master limited partnerships:				
Energy	4,425,968			4,425,968
Utilities	34,541			34,541
Limited partnership funds:				
Large-cap private equity index (e)		5,826,989		5,826,989
Real estate (b)			\$ 1,488,324	1,488,324
Private capital (c)			578,897	578,897
Event-driven/distressed debt hedge (d)			750,613	750,613
Total investments measured at fair value	31,919,889	13,626,132	2,817,834	48,363,855
Beneficial interest in charitable trust			<u>2,279,762</u>	<u>2,279,762</u>
Total assets measured at fair value	<u>\$ 31,919,889</u>	<u>\$ 13,626,132</u>	<u>\$ 5,097,596</u>	<u>\$ 50,643,617</u>

- (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 \$770,903 at July 31, 2015.

- (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 manager under certain conditions.
- (e) The primary focus of the fund is to own United States-based securities. However, the fund may at times own securities based in other nations due to corporate actions and entity domicile. The fund is a fundamental index strategy focused on alleviating the disadvantages of either market capitalization weighting or equal weighting. The methodology involves weighting the 1,000 largest listed U. S. companies by a composite statistic based upon book value and a rolling five year average of sales, cash flow and dividends. The investment in this fund was fully liquidated as of July 31, 2015.

Management determines valuation policies utilizing information provided by its investment advisors, 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* and *large-cap private equity index fund* are valued at net asset values as determined by the issuer or investment manager based on the fair value of the underlying investments.
- *Limited partnership real estate fund* is valued based on the Opera's percentage ownership in the net equity of the partnership fund as determined by the general partner. The significant unobservable inputs to the valuation are the discount rates and capitalization rates used.
- *Limited partnership private capital funds* and *hedge funds* are valued at net asset value as a practical expedient, as provided by the fund manager 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 2.41% used at July 31, 2015.

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:

	PRIVATE CAPITAL FUND	REAL ESTATE FUND	HEDGE FUND	BENEFICIAL INTEREST IN CHARITABLE TRUST	TOTAL
Balance at July 31, 2013		\$ 1,397,796	\$ 1,130,335	\$ 2,385,794	\$ 4,913,925
Purchases	\$ 578,897	67,298			646,195
Redemptions and fees		(59,089)	(491,589)	(186,049)	(736,727)
Contributions				80,017	80,017
Unrealized gain		84,974	111,867		196,841
Realized loss		(2,655)			(2,655)
Balance at July 31, 2014	578,897	1,488,324	750,613	2,279,762	5,097,596
Purchases	162,809	1,032,862			1,195,671
Redemptions and fees	(12,609)	(22,178)		(186,049)	(220,836)
Contributions				113,155	113,155
Unrealized gain	222,683	211,785	51,020		485,488
Realized gain		3,295			3,295
Balance at July 31, 2015	\$ 951,780	\$ 2,714,088	\$ 801,633	\$ 2,206,868	\$ 6,674,369

The amount reported in changes in net assets attributable to unrealized gains related to assets held at year end and measured at fair value using significant unobservable inputs is \$485,488 and \$196,841 in 2015 and 2014, respectively. This amount is included in investment return in the accompanying statement of activities.

#### NOTE 6 – PROPERTY

Property consists of the following:

	2015	2014
Leasehold improvements	\$ 1,966,920	\$ 1,964,105
Production and music equipment	883,146	977,548
Office furnishings and equipment	848,795	1,002,630
Vehicles	<u>122,407</u>	<u>144,504</u>
Total property, at cost	3,821,268	4,088,787
Accumulated depreciation	<u>(3,015,479)</u>	<u>(3,249,837)</u>
Property, net	\$ 805,789	\$ 838,950

#### NOTE 7 – NOTE PAYABLE

The Association has a \$4 million bank line of credit due February 28, 2016, with interest payable monthly at the bank's prime interest rate plus 1.75% (2.75% at July 31, 2015 and 5.00% at 2014). The line of credit is secured by the Endowment investments. Interest expense was \$27,091 and \$22,971 in 2015 and 2014, respectively. The principal balance of \$300,000 outstanding at July 31, 2015 is due at maturity in 2016.

**NOTE 8 – 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:

2016	\$ 352,332
2017	347,657
2018	306,857
2019	<u>49,238</u>
Total minimum future lease payments	<u>\$ 1,056,084</u>

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 each year. 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 \$895,756 in 2015 and \$866,206 in 2014.

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, 2015, such contracts with artists call for potential future compensation as follows:

2016	\$ 5,436,787
2017	2,465,390
2018	1,259,000
2019	<u>196,250</u>
Total	<u>\$ 9,357,427</u>

**NOTE 9 – UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Property, net	\$ 805,789	\$ 838,950
Board-designated endowment funds	665,019	465,528
Undesignated	<u>(2,528,034)</u>	<u>(2,505,823)</u>
Total unrestricted net assets	<u>\$ (1,057,226)</u>	<u>\$ (1,201,345)</u>

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Restricted for future opera productions	\$ 16,648,206	\$ 13,024,210
Accumulated earnings on permanent endowment ( <i>Note 11</i> )	12,515,573	13,022,295
Board-designated endowment	<u>2,206,868</u>	<u>2,279,762</u>
Total temporarily restricted net assets	<u>\$ 31,370,647</u>	<u>\$ 28,326,267</u>

## **NOTE 11 – ENDOWMENT**

The Board of Directors 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 2015, the Endowment distributed 4.9% 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, 0.3% is 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 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 2.75% in fiscal year 2015 and 5.0% in fiscal year 2014, and is considered a short-term, fixed-income investment within the Endowment portfolio allocation. Interest income of \$8,240 and \$30,472 was recognized by the Endowment in fiscal year 2015 and 2014, respectively. The amount outstanding on the line of credit from the Endowment to the Association was \$2,000,000 at July 31, 2015 and \$1,250,000 at July 31, 2014. This amount has been eliminated in consolidation.

Endowment net asset composition as of July 31, 2015:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
General operating		\$ 4,189,622	\$ 14,061,335	\$ 18,250,957
Mainstage productions		2,680,158	9,199,251	11,879,409
Studio		696,032	5,410,008	6,106,040
General director chair		478,890	3,998,195	4,477,085
New productions		1,187,551	1,507,674	2,695,225
Electronic media		484,976	2,000,000	2,484,976
Concert of Arias		694,013	1,352,218	2,046,231
Music director chair		589,109	1,000,000	1,589,109
Fund for Great Artists		517,222	1,000,000	1,517,222
Education		425,326	980,710	1,406,036
Concert master chair		198,479	1,000,000	1,198,479
Chorus master chair		31,993	1,000,000	1,031,993
Visiting artist chair		154,616	300,000	454,616
Spring Opera Festival		51,032	250,000	301,032
Studio guest coach chair		78,700	148,923	227,623
Vocal coach chair		29,390	125,000	154,390
Special needs		9,429	43,550	52,979
Wagner opera performances		19,035	5,850	24,885
Total donor-restricted endowment funds		12,515,573	43,382,714	55,898,287
Board-designated endowment funds	\$ 665,019	2,206,868		2,871,887
Endowment net assets	<u>\$ 665,019</u>	<u>\$ 14,722,441</u>	<u>\$ 43,382,714</u>	<u>\$ 58,770,174</u>

Endowment net asset composition as of July 31, 2014:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
General operating		\$ 4,462,630	\$ 13,581,003	\$ 18,043,633
Mainstage productions		2,857,892	9,124,589	11,982,481
Studio		688,680	4,126,877	4,815,557
General director chair		452,943	3,996,991	4,449,934
New productions		1,183,495	1,507,674	2,691,169
Electronic media		526,253	2,000,000	2,526,253
Concert of Arias		728,262	1,352,218	2,080,480
Music director chair		615,767	1,000,000	1,615,767
Fund for Great Artists		539,754	1,000,000	1,539,754
Education		444,956	975,976	1,420,932
Concert master chair		164,992	1,000,000	1,164,992
Visiting artist chair		161,608	300,000	461,608
Spring Opera Festival		56,068	250,000	306,068
Studio guest coach chair		79,622	148,923	228,545
Vocal coach chair		31,980	125,000	156,980
Special needs		7,960	38,550	46,510
Wagner opera performances		<u>19,433</u>	<u>5,850</u>	<u>25,283</u>
Total donor-restricted endowment funds		13,022,295	40,533,651	53,555,946
Board-designated endowment funds	<u>\$ 465,528</u>	<u>2,279,762</u>	<u>                  </u>	<u>2,745,290</u>
Endowment net assets	<u>\$ 465,528</u>	<u>\$ 15,302,057</u>	<u>\$ 40,533,651</u>	<u>\$ 56,301,236</u>

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:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, July 31, 2013	\$ 151,581	\$ 12,389,108	\$ 39,869,442	\$ 52,410,131
Contributions	<u>2,971</u>	<u>176,673</u>	<u>663,709</u>	<u>843,353</u>
Investment return:				
Interest and dividends	23,693	914,363		938,056
Net realized and unrealized gain	29,897	4,316,597		4,346,494
Investment management fees	<u>(1,516)</u>	<u>(202,749)</u>		<u>(204,265)</u>
Net investment return	<u>52,074</u>	<u>5,028,211</u>		<u>5,080,285</u>
Expenses	<u>(17,479)</u>			<u>(17,479)</u>
Release of time restriction	<u>282,705</u>	<u>(282,705)</u>		
Interfund transfers	<u>(500)</u>		<u>500</u>	
Appropriations for expenditure	<u>(5,824)</u>	<u>(2,009,230)</u>		<u>(2,015,054)</u>
Endowment net assets, July 31, 2014	<u>465,528</u>	<u>15,302,057</u>	<u>40,533,651</u>	<u>56,301,236</u>
Contributions	<u>5,925</u>	<u>113,164</u>	<u>2,607,089</u>	<u>2,726,178</u>
Investment return:				
Interest and dividends	25,064	910,891		935,955
Net realized and unrealized gain	10,554	970,679		981,233
Investment management fees	<u>(3,111)</u>	<u>(262,667)</u>		<u>(265,778)</u>
Net investment return	<u>32,507</u>	<u>1,618,903</u>		<u>1,651,410</u>
Expenses	<u>(14,712)</u>			<u>(14,712)</u>
Release of time restriction	<u>186,059</u>	<u>(186,059)</u>		
Transfer of special event proceeds			<u>241,974</u>	<u>241,974</u>
Appropriations for expenditure	<u>(10,288)</u>	<u>(2,125,624)</u>		<u>(2,135,912)</u>
Endowment net assets, July 31, 2015	<u>\$ 665,019</u>	<u>\$ 14,722,441</u>	<u>\$ 43,382,714</u>	<u>\$ 58,770,174</u>

**NOTE 12 – CONCENTRATION OF LABOR**

The Association has entered into six union contracts, two of which are effective through 2018 and one effective through 2017. The other three contracts expired July 31, 2015 and are currently under renegotiation for extension. Approximately 60% of the Association’s employees are members of these unions.

**NOTE 13 – 403(b) 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 \$93,514 in 2015 and \$93,433 in 2014 to the plan.

**NOTE 14 – 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 \$132,217 in 2015 and \$160,594 in 2014 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 2015 and 2014 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 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 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 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 Association's multiemployer pension plan as of July 31, 2015 and 2014, and the years ended July 31, 2015 and 2014:

NAME OF PENSION FUND	EIN AND PLAN NUMBER, IF AVAILABLE	PENSION PROTECTION ACT		FIP/RP STATUS	CONTRIBUTIONS FOR THE YEAR		SURCHARGE IMPOSED	EXPIRATION OF COLLECTIVE BARGAINING AGREEMENT
		ZONE STATUS			ENDED JULY 31,			
		2015	2014		2015	2014		
American Federation of Musicians and Employers' Pension Fund	51-6120204 Plan No. 001	Red 3/31/15	Red 3/31/14	Implemented	\$132,217	\$160,594	Yes	8/31/18

Due to the plan's "critical" status under the Pension Protection Act of 2006, a rehabilitation plan was adopted April 15, 2010 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, 2015.



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 approximately \$386,591 in 2015 and \$401,100 in 2014.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 13, 2015, 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.

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## Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2015

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
<b>ASSETS</b>						
Cash	\$ 848,712			\$ 1,500		\$ 850,212
Accounts receivable, net	343,250					343,250
Pledges receivable, net	17,006,568		\$ 1,489,003			18,495,571
Deferred production costs and other assets	2,930,399			77,396		3,007,795
Beneficial interest in charitable trust			2,206,868			2,206,868
Investments			55,074,303		\$ (2,000,000)	53,074,303
Property, net		\$ 805,789				805,789
Due from affiliates				46,715	(46,715)	
<b>TOTAL ASSETS</b>	<b>\$ 21,128,929</b>	<b>\$ 805,789</b>	<b>\$ 58,770,174</b>	<b>\$ 125,611</b>	<b>\$ (2,046,715)</b>	<b>\$ 78,783,788</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 257,838					\$ 257,838
Accrued salaries and benefit costs	418,946					418,946
Accrued production expense	642,945					642,945
Due to affiliates	46,715				\$ (46,715)	
Deferred subscription revenue	3,291,954					3,291,954
Deferred co-production and set rental revenue	175,970					175,970
Note payable	2,300,000				(2,000,000)	300,000
<b>Total liabilities</b>	<b>7,134,368</b>				<b>(2,046,715)</b>	<b>5,087,653</b>
<b>Net assets:</b>						
Unrestricted	(2,653,645)	\$ 805,789	\$ 665,019	\$ 125,611		(1,057,226)
Temporarily restricted	16,648,206		14,722,441			31,370,647
Permanently restricted			43,382,714			43,382,714
<b>Total net assets</b>	<b>13,994,561</b>	<b>805,789</b>	<b>58,770,174</b>	<b>125,611</b>		<b>73,696,135</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 21,128,929</b>	<b>\$ 805,789</b>	<b>\$ 58,770,174</b>	<b>\$ 125,611</b>	<b>\$ (2,046,715)</b>	<b>\$ 78,783,788</b>

## Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2014

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
<b>ASSETS</b>						
Cash	\$ 930,625			\$ 1,500		\$ 932,125
Accounts receivable, net	753,224					753,224
Pledges receivable, net	12,639,625		\$ 2,436,668			15,076,293
Deferred production costs and other assets	2,669,332			93,340		2,762,672
Beneficial interest in charitable trust			2,279,762			2,279,762
Investments			51,584,806		\$ (1,250,000)	50,334,806
Property, net		\$ 838,950				838,950
Due from affiliates				70,371	(70,371)	
<b>TOTAL ASSETS</b>	<b>\$ 16,992,806</b>	<b>\$ 838,950</b>	<b>\$ 56,301,236</b>	<b>\$ 165,211</b>	<b>\$ (1,320,371)</b>	<b>\$ 72,977,832</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 441,832					\$ 441,832
Accrued salaries and benefit costs	431,109					431,109
Accrued production expenses	605,227					605,227
Due to affiliates	70,371				\$ (70,371)	
Deferred subscription revenue	3,351,720					3,351,720
Deferred co-production and set rental revenue	489,371					489,371
Note payable	1,250,000				(1,250,000)	
<b>Total liabilities</b>	<b>6,639,630</b>				<b>(1,320,371)</b>	<b>5,319,259</b>
<b>Net assets:</b>						
Unrestricted	(2,671,034)	\$ 838,950	\$ 465,528	\$ 165,211		(1,201,345)
Temporarily restricted	13,024,210		15,302,057			28,326,267
Permanently restricted			40,533,651			40,533,651
<b>Total net assets</b>	<b>10,353,176</b>	<b>838,950</b>	<b>56,301,236</b>	<b>165,211</b>		<b>67,658,573</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 16,992,806</b>	<b>\$ 838,950</b>	<b>\$ 56,301,236</b>	<b>\$ 165,211</b>	<b>\$ (1,320,371)</b>	<b>\$ 72,977,832</b>

## Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2015

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
REVENUE:						
Contributions	\$ 18,126,274		\$ 2,726,178	\$ 20,544		\$ 20,872,996
Ticket sales and performance fees	6,094,277					6,094,277
Special events	2,090,240			68,680		2,158,920
Cost of direct donor benefits	(561,597)			(32,095)		(593,692)
Production and other income	1,008,856			112,537		1,121,393
Investment return, net	4,245		1,651,410			1,655,655
Total revenue	<u>26,762,295</u>		<u>4,377,588</u>	<u>169,666</u>		<u>31,309,549</u>
EXPENSES:						
Program services	17,115,752	\$ 159,500		6,213		17,281,465
Marketing and advertising	3,111,304	21,505		11,095		3,143,904
Fundraising	3,011,017	16,433		121,817		3,149,267
Management and general	<u>1,647,985</u>	<u>27,503</u>	<u>14,712</u>	<u>7,151</u>		<u>1,697,351</u>
Total expenses	<u>24,886,058</u>	<u>224,941</u>	<u>14,712</u>	<u>146,276</u>		<u>25,271,987</u>
OPERATING INCOME (LOSS)	1,876,237	(224,941)	4,362,876	23,390		6,037,562
Transfers (to) from affiliates	<u>1,765,148</u>	<u>191,780</u>	<u>(1,893,938)</u>	<u>(62,990)</u>		
CHANGES IN NET ASSETS	3,641,385	(33,161)	2,468,938	(39,600)		6,037,562
Net assets, beginning of year	<u>10,353,176</u>	<u>838,950</u>	<u>56,301,236</u>	<u>165,211</u>		<u>67,658,573</u>
Net assets, end of year	<u>\$ 13,994,561</u>	<u>\$ 805,789</u>	<u>\$ 58,770,174</u>	<u>\$ 125,611</u>	<u>\$ 0</u>	<u>\$ 73,696,135</u>

## Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2014

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
REVENUE:						
Contributions	\$ 15,055,350		\$ 843,353	\$ 31,039		\$ 15,929,742
Ticket sales and performance fees	6,047,959					6,047,959
Special events	3,535,609			73,340		3,608,949
Cost of direct donor benefits	(434,638)			(25,111)		(459,749)
Production and other income	1,905,843			117,674		2,023,517
Investment return, net	56,657		5,080,285			5,136,942
Total revenue	<u>26,166,780</u>		<u>5,923,638</u>	<u>196,942</u>		<u>32,287,360</u>
EXPENSES:						
Program services	19,534,246	\$ 167,240		2,814		19,704,300
Marketing and advertising	3,052,133	62,259		7,321		3,121,713
Fundraising	3,129,352	20,818		92,899		3,243,069
Management and general	1,828,660	30,009	17,479	6,567		1,882,715
Total expenses	<u>27,544,391</u>	<u>280,326</u>	<u>17,479</u>	<u>109,601</u>		<u>27,951,797</u>
OPERATING INCOME (LOSS)	(1,377,611)	(280,326)	5,906,159	87,341		4,335,563
Transfers (to) from affiliates	1,983,295	81,717	(2,015,054)	(49,958)		
CHANGES IN NET ASSETS	605,684	(198,609)	3,891,105	37,383		4,335,563
Net assets, beginning of year	9,747,492	1,037,559	52,410,131	127,828		63,323,010
Net assets, end of year	<u>\$ 10,353,176</u>	<u>\$ 838,950</u>	<u>\$ 56,301,236</u>	<u>\$ 165,211</u>	<u>\$ 0</u>	<u>\$ 67,658,573</u>