

Houston Grand Opera Association, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2014 and 2013

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, 2014 and 2013 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, 2014 and 2013 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, 2014 and 2013 and consolidating statements of activities for the years ended July 31, 2014 and 2013 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 6, 2014

Houston Grand Opera Association, Inc.

Consolidated Statements of Financial Position as of July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 932,125	\$ 1,001,950
Accounts receivable, net	753,224	143,974
Operating pledges receivable, net (<i>Note 2</i>)	12,639,625	11,818,151
Deferred production costs and other assets	2,762,672	1,896,645
Beneficial interest in charitable trust (<i>Notes 3 and 5</i>)	2,279,762	2,385,794
Pledges receivable restricted for endowment, net (<i>Note 2</i>)	2,436,668	4,016,548
Investments (<i>Notes 4 and 5</i>)	50,334,806	45,018,050
Property, net (<i>Note 6</i>)	<u>838,950</u>	<u>1,037,559</u>
TOTAL ASSETS	<u>\$ 72,977,832</u>	<u>\$ 67,318,671</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 441,832	\$ 359,148
Accrued salaries and benefit costs	431,110	284,938
Accrued production expense	605,226	132,575
Deferred subscription revenue	3,351,720	3,123,154
Deferred co-production and set rental revenue	<u>489,371</u>	<u>95,846</u>
Total liabilities	<u>5,319,259</u>	<u>3,995,661</u>
Commitments and contingencies (<i>Note 8</i>)		
Net assets (<i>Note 11</i>):		
Unrestricted (<i>Note 9</i>)	(1,170,873)	(1,377,148)
Temporarily restricted (<i>Note 10</i>)	28,295,795	24,830,716
Permanently restricted	<u>40,533,651</u>	<u>39,869,442</u>
Total net assets	<u>67,658,573</u>	<u>63,323,010</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 72,977,832</u>	<u>\$ 67,318,671</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

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

	<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)
Production income	1,647,571			1,647,571
Investment return, net <i>(Note 4)</i>	108,731	4,997,739		5,106,470
Other income	<u>375,946</u>			<u>375,946</u>
Total revenue	19,522,469	12,070,710	663,709	32,256,888
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>3,465,079</u>	<u>664,209</u>	<u>32,256,888</u>
EXPENSES:				
Program services:				
Mainstage	17,537,853			17,537,853
Education	1,119,613			1,119,613
Studio	<u>1,046,834</u>			<u>1,046,834</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>1,852,243</u>			<u>1,852,243</u>
Total expenses	<u>27,921,325</u>			<u>27,921,325</u>
CHANGES IN NET ASSETS	206,275	3,465,079	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>\$ (1,170,873)</u>	<u>\$ 28,295,795</u>	<u>\$ 40,533,651</u>	<u>\$ 67,658,573</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2013

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 8,496,980	\$ 8,364,894	\$ 3,391,647	\$ 20,253,521
Ticket sales and performance fees	5,449,504			5,449,504
Special events	2,621,337	350,000		2,971,337
Cost of direct donor benefits	(483,489)			(483,489)
Production income	1,206,372			1,206,372
Investment return, net <i>(Note 4)</i>	137,072	5,699,985		5,837,057
Other income	<u>344,233</u>			<u>344,233</u>
Total revenue	17,772,009	14,414,879	3,391,647	35,578,535
Net assets released from restrictions:				
Time and purpose restrictions	5,030,119	(5,030,119)		
Endowment appropriation	1,865,040	(1,865,040)		
Net transfer to/from Endowment	(1,600)		1,600	
Redesignation for special events	<u>385,417</u>	<u>(385,417)</u>		
Total	<u>25,050,985</u>	<u>7,134,303</u>	<u>3,393,247</u>	<u>35,578,535</u>
EXPENSES:				
Program services:				
Mainstage	15,380,323			15,380,323
Education	1,050,569			1,050,569
Studio	<u>1,008,600</u>			<u>1,008,600</u>
Total program services	17,439,492			17,439,492
Marketing and advertising	3,085,171			3,085,171
Fundraising	3,297,757			3,297,757
Management and general	<u>2,020,233</u>			<u>2,020,233</u>
Total expenses	<u>25,842,653</u>			<u>25,842,653</u>
CHANGES IN NET ASSETS	(791,668)	7,134,303	3,393,247	9,735,882
Net assets, beginning of year	<u>(585,480)</u>	<u>17,696,413</u>	<u>36,476,195</u>	<u>53,587,128</u>
Net assets, end of year	<u>\$ (1,377,148)</u>	<u>\$ 24,830,716</u>	<u>\$ 39,869,442</u>	<u>\$ 63,323,010</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statements of Cash Flows for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,335,563	\$ 9,735,882
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(4,393,850)	(5,000,710)
Contributions restricted for endowment	(663,709)	(3,391,647)
Depreciation	280,326	269,355
Changes in operating assets and liabilities:		
Accounts receivable	(609,250)	469,231
Operating pledges receivable	(821,474)	(3,388,823)
Deferred production costs and other assets	(866,027)	233,515
Accounts payable and accrued expenses	701,507	134,779
Deferred revenue	<u>622,091</u>	<u>129,827</u>
Net cash used by operating activities	<u>(1,414,823)</u>	<u>(808,591)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(8,678,857)	(5,096,518)
Proceeds from sale of investments	10,480,473	4,793,941
Net change in cash and money market mutual funds held as investments	(2,724,522)	(1,078,218)
Change in beneficial interest in charitable trust	106,032	446,605
Purchases of property	<u>(81,717)</u>	<u>(27,417)</u>
Net cash used by investing activities	<u>(898,591)</u>	<u>(961,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	2,150,000	4,780,000
Payments on note payable	(2,150,000)	(4,780,000)
Proceeds from contributions restricted for endowment	<u>2,243,589</u>	<u>2,664,995</u>
Net cash provided by financing activities	<u>2,243,589</u>	<u>2,664,995</u>
NET CHANGE IN CASH	(69,825)	894,797
Cash, beginning of year	<u>1,001,950</u>	<u>107,153</u>
Cash, end of year	<u>\$ 932,125</u>	<u>\$ 1,001,950</u>
<i>Supplemental disclosure of cash flow information:</i>		
Donated securities	\$1,606,121	\$1,753,092

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>EDUCATION</u>	<u>STUDIO</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	\$ 563,468	\$ 637,741	\$ 9,775,673	\$ 1,273,444	\$ 1,564,951	\$ 991,495	\$ 13,605,563
Payroll taxes and benefits	1,784,834	95,484	178,704	2,059,022	248,614	284,734	270,291	2,862,661
Professional fees	3,220,903	302,766	138,892	3,662,561	195,334	233,232	149,206	4,240,333
Production materials	1,367,344	27,146	1,636	1,396,126				1,396,126
Travel	740,887	68,423	62,916	872,226	15,021	35,331	166,606	1,089,184
Advertising and public relations	22,272	21,952	6,039	50,263	752,579	199,175	7,540	1,009,557
Building and storage rentals	712,291	3,318	9,175	724,784	59,795	60,943	20,684	866,206
Conferences, meetings and events	14,803	11,784	8,059	34,646	21,713	498,164	24,034	578,557
Office supplies and expenses	74,368	17,219	2,697	94,284	225,694	96,252	106,190	522,420
Production shipping costs	398,830			398,830				398,830
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
Insurance	156,441			156,441	33,429	25,347	21,027	236,244
Equipment	87,950	5,476	810	94,236	20,520	49,201	9,903	173,860
Royalties	120,376	2,567	165	123,108				123,108
Information technology	25,608			25,608	36,817	31,770	20,895	115,090
Interest							22,971	22,971
Other	69,242			69,242		65,983		135,225
Total expenses	<u>\$ 17,537,853</u>	<u>\$ 1,119,613</u>	<u>\$ 1,046,834</u>	<u>\$ 19,704,300</u>	<u>\$ 3,121,713</u>	<u>\$ 3,243,069</u>	<u>\$ 1,852,243</u>	27,921,325
Cost of direct donor benefits								459,749
Investment management fees								204,265
Total expenditures								<u>\$ 28,585,339</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Functional Expenses for the year ended July 31, 2013

	<u>MAINSTAGE</u>	<u>EDUCATION</u>	<u>STUDIO</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	\$ 7,946,633	\$ 544,160	\$ 636,608	\$ 9,127,401	\$ 1,158,192	\$ 1,438,688	\$ 1,110,038	\$ 12,834,319
Payroll taxes and benefits	1,577,261	90,642	177,095	1,844,998	262,944	259,202	282,157	2,649,301
Professional fees	2,597,248	196,049	118,860	2,912,157	186,174	200,090	194,469	3,492,890
Production materials	1,342,358	23,934	1,530	1,367,822		3,660		1,371,482
Travel	436,564	125,408	53,632	615,604	16,260	57,007	118,478	807,349
Advertising and public relations	15,589	22,354	2,944	40,887	915,389	284,356	10,181	1,250,813
Building and storage rentals	663,163	5,845	7,069	676,077	44,870	65,128	26,697	812,772
Conferences, meetings and events	11,877	20,725	6,509	39,111	27,997	641,294	32,161	740,563
Office supplies and expenses	74,047	14,073	3,767	91,887	193,350	101,516	107,421	494,174
Production shipping costs	230,322			230,322				230,322
Depreciation	157,414			157,414	60,702	21,701	29,538	269,355
Bank credit card fees		19		19	142,277	85,625	10,354	238,275
Insurance	61,463			61,463	21,559	19,598	19,716	122,336
Equipment	65,128	2,808	370	68,306	13,265	18,202	10,874	110,647
Royalties	187,261	4,552	216	192,029				192,029
Information technology	13,995			13,995	30,233	29,019	17,505	90,752
Interest							24,061	24,061
Other					11,959	72,671	26,583	111,213
Total expenses	<u>\$ 15,380,323</u>	<u>\$ 1,050,569</u>	<u>\$ 1,008,600</u>	<u>\$ 17,439,492</u>	<u>\$ 3,085,171</u>	<u>\$ 3,297,757</u>	<u>\$ 2,020,233</u>	25,842,653
Cost of direct donor benefits								483,489
Investment management fees								<u>234,399</u>
Total expenditures								<u>\$ 26,560,541</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Notes to Consolidated Financial Statements for the years ended July 31, 2014 and 2013

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, 2014, 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, 2011.

Cash includes demand deposits which exceed the federally insured limit per depositor per institution.

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 are included in contribution revenue.

Allowance for doubtful 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 \$325,730 and \$346,441 in 2014 and 2013, 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.

Co-production revenue – 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. Co-production revenue 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.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2014</u>	<u>2013</u>
Pledges receivable	\$ 15,281,524	\$ 16,016,316
Discount to present value at 0.3% to 5.0%	(65,792)	(76,617)
Allowance for uncollectible pledges receivable	<u>(139,439)</u>	<u>(105,000)</u>
Pledges receivable, net	15,076,293	15,834,699
Pledges receivable restricted for endowment, net	<u>(2,436,668)</u>	<u>(4,016,548)</u>
Operating pledges receivable, net	<u>\$ 12,639,625</u>	<u>\$ 11,818,151</u>

Pledges receivable at July 31, 2014 are expected to be collected as follows:

Due in less than one year	\$ 9,944,522
Due in one to five years	<u>5,337,002</u>
Total pledges receivable	<u>\$ 15,281,524</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>2014</u>	<u>2013</u>
Common stocks	\$ 14,300,204	\$ 12,498,175
Mutual funds	13,159,176	10,851,324
Fixed-income common collective fund	7,799,143	7,719,179
Limited partnership funds	8,632,214	7,531,429
Master limited partnerships	<u>4,473,118</u>	<u>3,678,473</u>
Total investments at fair value	48,363,855	42,278,580
Cash held in investment accounts	<u>1,970,951</u>	<u>2,739,470</u>
Total investments	<u>\$ 50,334,806</u>	<u>\$ 45,018,050</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>2014</u>	<u>2013</u>
Net realized and unrealized gain on investments	\$ 4,393,850	\$ 5,000,710
Interest and dividends	870,010	1,024,946
Royalty income	46,875	45,800
Investment management fees	<u>(204,265)</u>	<u>(234,399)</u>
Investment return, net	<u>\$ 5,106,470</u>	<u>\$ 5,837,057</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, 2014 are as follows:

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

Assets measured at fair value at July 31, 2013 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks:				
Information technology	\$ 3,924,828			\$ 3,924,828
Foreign	1,773,602			1,773,602
Consumer discretionary	1,732,338			1,732,338
Financials	1,823,368			1,823,368
Health care	1,030,077			1,030,077
Industrials	1,188,752			1,188,752
Energy	544,581			544,581
Materials	265,394			265,394
Consumer staples	123,977			123,977
Utilities	91,258			91,258
Mutual funds:				
Money market	2,212,273			2,212,273
Foreign stock	4,963,580			4,963,580
Large-cap stock	1,318,121			1,318,121
Taxable bond	1,107,532			1,107,532
Energy and natural resource stock	819,546			819,546
Commodity and other	430,272			430,272
Limited partnership funds:				
Large-cap private equity index (a)		\$ 5,003,298		5,003,298
Real estate (b)			\$ 1,397,796	1,397,796
Event-driven and distressed debt hedge (c)			681,571	681,571
Special situations hedge (f)			448,764	448,764
Fixed-income common collective fund (e)		7,719,179		7,719,179
Master limited partnerships:				
Energy	3,641,291			3,641,291
Utilities	37,182			37,182
Total investments measured at fair value	<u>27,027,972</u>	<u>12,722,477</u>	<u>2,528,131</u>	<u>42,278,580</u>
Beneficial interest in charitable trust			<u>2,385,794</u>	<u>2,385,794</u>
Total assets measured at fair value	<u>\$ 27,027,972</u>	<u>\$ 12,722,477</u>	<u>\$ 4,913,925</u>	<u>\$ 44,664,374</u>

- (a) 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 weighing 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. 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 adequate liquidity exists to pay the redemption.
- (c) Represents two limited partnership hedge funds whose investment strategies seek 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 on June 30th of each year upon 90-days written notice, but may be suspended by the fund manager at any time.

- (d) 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 in 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.
- (e) 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.
- (f) The primary investment objective is to earn an attractive return on contributed capital while minimizing risk over the long-term by investing in securities and other financial instruments that the general partner believes to be undervalued or issued by special situation companies. Redemptions may generally be made at the end of each fiscal quarter after being invested in the fund for one year, upon 90-days written notice. Shares in this fund were redeemed during fiscal year 2014 with a hold back amount of \$49,086 expected to be received in 2015.

The private capital partnership fund has an unfunded commitment of \$933,712 at July 31, 2014.

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:

- *Common stocks* and *master limited partnerships* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the published net asset value of shares held at year end.
- *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 hedge funds* and private capital funds are valued at net asset value as a practical expedient, as provided by the fund manager based on the NAV 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 2.83% used at July 31, 2014.

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 FUNDS	BENEFICIAL INTEREST IN CHARITABLE TRUST	TOTAL
Balance at July 31, 2012		\$ 1,303,618	\$ 963,520	\$ 2,832,399	\$ 5,099,537
Purchases		67,093			67,093
Redemptions		(56,395)	(590)	(515,455)	(572,440)
Contributions				68,850	68,850
Unrealized gain		87,111	167,059		254,170
Realized gain (loss)		<u>(3,631)</u>	<u>346</u>		<u>(3,285)</u>
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		(59,089)	(491,589)	(186,049)	(736,727)
Contributions				80,017	80,017
Unrealized gain		84,974	111,867		196,841
Realized loss		<u>(2,655)</u>			<u>(2,655)</u>
Balance at July 31, 2014	<u>\$ 578,897</u>	<u>\$ 1,488,324</u>	<u>\$ 750,613</u>	<u>\$ 2,279,762</u>	<u>\$ 5,097,596</u>

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 \$196,841 and \$254,170 in 2014 and 2013, respectively. This amount is included in investment return in the accompanying statement of activities.

NOTE 6 – PROPERTY

Property consists of the following:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 1,964,105	\$ 1,959,375
Production and music equipment	977,548	951,350
Office furnishings and equipment	1,002,630	951,841
Vehicles	<u>144,504</u>	<u>144,504</u>
Total property, at cost	4,088,787	4,007,070
Accumulated depreciation	<u>(3,249,837)</u>	<u>(2,969,511)</u>
Property, net	<u>\$ 838,950</u>	<u>\$ 1,037,559</u>

NOTE 7 – NOTE PAYABLE

The Association has a \$4 million bank line of credit due February 1, 2015, with interest payable monthly at the bank's prime interest rate plus 1.75% (5.00% at July 31, 2014 and 2013). The line of credit is secured by the Endowment investments. Interest expense was \$22,971 and \$24,061 in 2014 and 2013, respectively. There are no amounts outstanding at July 31, 2014.

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:

2015	\$ 352,332
2016	340,542
2017	346,750
2018	<u>297,738</u>
Total minimum future lease payments	<u>\$ 1,337,362</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. During 2014, annual lease payments increased from \$134,000 to \$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 \$866,206 in 2014 and \$812,772 in 2013.

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, 2014, such contracts with artists call for potential future compensation as follows:

2015	\$ 5,442,630
2016	2,401,000
2017	2,206,750
2018	413,750
2019	<u>143,750</u>
Total	<u>\$ 10,607,880</u>

NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2014</u>	<u>2013</u>
Property, net	\$ 838,950	\$ 1,037,559
Board-designated endowment funds	465,528	151,581
Undesignated	<u>(2,475,351)</u>	<u>(2,566,288)</u>
Total unrestricted net assets	<u>\$ (1,170,873)</u>	<u>\$ (1,377,148)</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Restricted for future opera productions	\$ 12,993,738	\$ 12,441,608
Accumulated earnings on permanent endowment (<i>Note 11</i>)	13,022,295	10,003,314
Board-designated endowment	<u>2,279,762</u>	<u>2,385,794</u>
Total temporarily restricted net assets	<u>\$ 28,295,795</u>	<u>\$ 24,830,716</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

Annually, the Endowment will distribute 5% of the average market value of the Endowment's funds under management for the preceding twelve quarters (beginning July 31 of the prior year and preceding quarters). Additionally, 0.4% is appropriated for administrative costs of the planned giving department. 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. Beginning in fiscal year 2015, the annual distribution rate will be reduced by one-tenth of a percent each year for five consecutive years until it reaches 4.5% in fiscal year 2019.

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 5%, and is considered a short-term, fixed-income investment within the Endowment portfolio allocation. The amount outstanding on the line of credit from the Endowment to the Association was \$1,250,000 at July 31, 2014 and \$1,000,000 at July 31, 2013. This amount has been eliminated in consolidation.

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		19,433	5,850	25,283
Total donor-restricted endowment funds		13,022,295	40,533,651	53,555,946
Board-designated endowment funds	\$ 465,528	2,279,762	_____	2,745,290
Endowment net assets	<u>\$ 465,528</u>	<u>\$ 15,302,057</u>	<u>\$ 40,533,651</u>	<u>\$ 56,301,236</u>

Endowment net asset composition as of July 31, 2013:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
General operating		\$ 3,471,878	\$ 13,242,544	\$ 16,714,422
Mainstage productions		2,187,621	8,880,596	11,068,217
Studio		441,325	4,112,777	4,554,102
General director chair		242,933	3,986,534	4,229,467
New productions		987,400	1,507,674	2,495,074
Electronic media		384,445	2,000,000	2,384,445
Concert of Arias		613,592	1,352,218	1,965,810
Music director chair		526,982	1,000,000	1,526,982
Fund for Great Artists		449,292	1,000,000	1,449,292
Education		366,820	923,926	1,290,746
Concert master chair		49,671	1,000,000	1,049,671
Visiting artist chair		132,005	300,000	432,005
Spring Opera Festival		39,173	250,000	289,173
Studio guest coach chair		65,481	148,923	214,404
Vocal coach chair		23,354	125,000	148,354
Special needs		3,371	33,400	36,771
Wagner opera performances		<u>17,971</u>	<u>5,850</u>	<u>23,821</u>
Total donor-restricted endowment funds		10,003,314	39,869,442	49,872,756
Board-designated endowment funds	<u>\$ 151,581</u>	<u>2,385,794</u>	<u> </u>	<u>2,537,375</u>
Endowment net assets	<u>\$ 151,581</u>	<u>\$ 12,389,108</u>	<u>\$ 39,869,442</u>	<u>\$ 52,410,131</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, 2012	\$ 727,205	\$ 8,863,952	\$ 36,476,195	\$ 46,067,352
Contributions	<u>18,082</u>	<u>68,851</u>	<u>3,391,647</u>	<u>3,478,580</u>
Investment return:				
Interest and dividends	31,062	1,033,563		1,064,625
Net realized and unrealized gain	81,991	4,897,362		4,979,353
Investment management fees	<u>(3,459)</u>	<u>(230,940)</u>		<u>(234,399)</u>
Net investment return	<u>109,594</u>	<u>5,699,985</u>		<u>5,809,579</u>
Expenses	<u>(14,948)</u>			<u>(14,948)</u>
Release of time restriction	<u>378,640</u>	<u>(378,640)</u>		
Transfer from Guild			<u>1,600</u>	<u>1,600</u>
Appropriations for expenditure	<u>(1,066,992)</u>	<u>(1,865,040)</u>		<u>(2,932,032)</u>
Endowment net assets, July 31, 2013	<u>151,581</u>	<u>12,389,108</u>	<u>39,869,442</u>	<u>52,410,131</u>
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>(6,324)</u>	<u>5,824</u>	<u>500</u>	
Appropriations for expenditure		<u>(2,015,054)</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>

NOTE 12 – CONCENTRATION OF LABOR

The Association has entered into six union contracts, two of which were successfully renegotiated in 2014 to extend to 2018. Of the four remaining contracts, three are subject to renegotiations in 2015 and one will be renegotiated in 2017. Approximately 68% 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 \$93,433 in 2014 and \$104,128 in 2013 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 \$160,594 in 2014 and \$144,500 in 2013 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 2014 and 2013 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, 2014 and 2013, and the years ended July 31, 2014 and 2013:

NAME OF PENSION FUND	EIN AND PLAN NUMBER, IF AVAILABLE	PENSION PROTECTION ACT		FIP/RP STATUS	CONTRIBUTIONS FOR THE YEAR ENDED JULY 31,		SURCHARGE IMPOSED	EXPIRATION OF COLLECTIVE BARGAINING AGREEMENT
		ZONE STATUS			2014	2013		
		2014	2013		2014	2013		
American Federation of Musicians and Employers' Pension Fund	51-6120204 Plan No. 001	Red 3/31/14	Red 3/31/13	Implemented	\$160,594	\$144,500	Yes	8/31/14

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, 2014.

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 \$401,100 in 2014 and \$344,600 in 2013.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 6, 2014, 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, 2014

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
ASSETS						
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)	
TOTAL ASSETS	\$ 16,992,806	\$ 838,950	\$ 56,301,236	\$ 165,211	\$ (1,320,371)	\$ 72,977,832
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 1,047,058					\$ 1,047,058
Accrued salaries and benefit costs	431,110					431,110
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)	
Total liabilities	6,639,630				(1,320,371)	5,319,259
Net assets:						
Unrestricted	(2,671,034)	\$ 838,950	\$ 465,528	\$ 165,211	30,472	(1,170,873)
Temporarily restricted	13,024,210		15,302,057		(30,472)	28,295,795
Permanently restricted			40,533,651			40,533,651
Total net assets	10,353,176	838,950	56,301,236	165,211	0	67,658,573
TOTAL LIABILITIES AND NET ASSETS	\$ 16,992,806	\$ 838,950	\$ 56,301,236	\$ 165,211	\$ (1,320,371)	\$ 72,977,832

Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2013

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
ASSETS						
Cash	\$ 1,000,450			\$ 1,500		\$ 1,001,950
Accounts receivable, net	143,974					143,974
Pledges receivable, net	11,818,151		\$ 4,016,548			15,834,699
Deferred production costs and other assets	1,814,590			82,055		1,896,645
Beneficial interest in charitable trust			2,385,794			2,385,794
Investments			46,018,050		\$ (1,000,000)	45,018,050
Property, net		\$ 1,037,559				1,037,559
Due from affiliates				44,273	(44,273)	
TOTAL ASSETS	\$ 14,777,165	\$ 1,037,559	\$ 52,420,392	\$ 127,828	\$ (1,044,273)	\$ 67,318,671
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 481,462		\$ 10,261			\$ 491,723
Accrued salaries and benefit costs	284,938					284,938
Due to affiliates	44,273				\$ (44,273)	
Deferred subscription revenue	3,123,154					3,123,154
Deferred co-production and set rental revenue	95,846					95,846
Note payable	1,000,000				(1,000,000)	
Total liabilities	5,029,673		10,261		(1,044,273)	3,995,661
Net assets:						
Unrestricted	(2,694,116)	\$ 1,037,559	151,581	\$ 127,828		(1,377,148)
Temporarily restricted	12,441,608		12,389,108			24,830,716
Permanently restricted			39,869,442			39,869,442
Total net assets	9,747,492	1,037,559	52,410,131	127,828		63,323,010
TOTAL LIABILITIES AND NET ASSETS	\$ 14,777,165	\$ 1,037,559	\$ 52,420,392	\$ 127,828	\$ (1,044,273)	\$ 67,318,671

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	<u>56,657</u>		<u>5,080,285</u>		<u>\$ (30,472)</u>	<u>5,106,470</u>
Total revenue	<u>26,166,780</u>		<u>5,923,638</u>	<u>196,942</u>	<u>(30,472)</u>	<u>32,256,888</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	<u>1,828,660</u>	<u>30,009</u>	<u>17,479</u>	<u>6,567</u>	<u>(30,472)</u>	<u>1,852,243</u>
Total expenses	<u>27,544,391</u>	<u>280,326</u>	<u>17,479</u>	<u>109,601</u>	<u>(30,472)</u>	<u>27,921,325</u>
Transfers (to) from affiliates	<u>1,983,295</u>	<u>81,717</u>	<u>(2,015,054)</u>	<u>(49,958)</u>		
CHANGES IN NET ASSETS	605,684	(198,609)	3,891,105	37,383	0	4,335,563
Net assets, beginning of year	<u>9,747,492</u>	<u>1,037,559</u>	<u>52,410,131</u>	<u>127,828</u>	<u>0</u>	<u>63,323,010</u>
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>

Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2013

	ASSOCIATION		ENDOWMENT	GUILD	TOTAL
	OPERATING FUND	PLANT FUND			
REVENUE:					
Contributions	\$ 16,744,945		\$ 3,478,580	\$ 29,996	\$ 20,253,521
Ticket sales and performance fees	5,449,504				5,449,504
Special events	2,896,991			74,346	2,971,337
Cost of direct donor benefits	(457,332)			(26,157)	(483,489)
Production and other income	1,434,188			116,417	1,550,605
Investment return, net	27,478		5,809,579		5,837,057
Total revenue	<u>26,095,774</u>		<u>9,288,159</u>	<u>194,602</u>	<u>35,578,535</u>
EXPENSES:					
Program services	17,279,646	\$ 157,414		2,432	17,439,492
Marketing and advertising	3,018,936	60,702		5,533	3,085,171
Fundraising	3,172,818	21,701		103,238	3,297,757
Management and general	1,969,124	29,538	14,948	6,623	2,020,233
Total expenses	<u>25,440,524</u>	<u>269,355</u>	<u>14,948</u>	<u>117,826</u>	<u>25,842,653</u>
Transfers (to) from affiliates	<u>2,969,428</u>	<u>27,417</u>	<u>(2,930,432)</u>	<u>(66,413)</u>	
CHANGES IN NET ASSETS	3,624,678	(241,938)	6,342,779	10,363	9,735,882
Net assets, beginning of year	<u>6,122,814</u>	<u>1,279,497</u>	<u>46,067,352</u>	<u>117,465</u>	<u>53,587,128</u>
Net assets, end of year	<u>\$ 9,747,492</u>	<u>\$ 1,037,559</u>	<u>\$ 52,410,131</u>	<u>\$ 127,828</u>	<u>\$ 63,323,010</u>
