

**GRAND OPERA HOUSE, INC.**

**FINANCIAL STATEMENTS,  
INDEPENDENT AUDITORS' REPORT, AND  
SUPPLEMENTARY INFORMATION**

**JULY 31, 2018 AND 2017**

**GRAND OPERA HOUSE, INC.**  
**TABLE OF CONTENTS**  
**JULY 31, 2018 AND 2017**

	<u>Page No.</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	7
<b>Supplementary Information</b>	
Schedules of Functional Expenses	22



BELFINT • LYONS • SHUMAN  
Certified Public Accountants

---

[www.belfint.com](http://www.belfint.com)

---

*Independent Auditors' Report*

To the Board of Directors of  
Grand Opera House, Inc.

We have audited the accompanying financial statements of Grand Opera House, Inc. (Organization) which comprise the statements of financial position as of July 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

To the Board of Directors of  
Grand Opera House, Inc.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Opera House, Inc. as of July 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 22 are presented for purposes of additional analysis and are 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 the 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.

*Belfint, Lyons & Shuman, P.A.*

February 6, 2019

Wilmington, Delaware

**GRAND OPERA HOUSE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JULY 31, 2018 AND 2017**

**ASSETS**

	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ (116,236)	\$ 275,811
Accounts Receivable	4,890	17,512
Contributions Receivable	514,096	793,632
Inventory	20,769	20,769
Prepaid Expenses	132,859	224,555
<b>TOTAL CURRENT ASSETS</b>	<b>556,378</b>	<b>1,332,279</b>
<b>PROPERTY AND EQUIPMENT</b>		
Land	679,600	679,600
Building and Improvements	27,177,085	27,004,124
Equipment	1,976,415	1,793,864
Construction in Progress	151,402	103,560
	29,984,502	29,581,148
Less: Accumulated Depreciation and Amortization	23,424,286	22,604,404
<b>TOTAL PROPERTY AND EQUIPMENT, NET</b>	<b>6,560,216</b>	<b>6,976,744</b>
<b>OTHER ASSETS</b>		
Restricted Cash - Acquisition of Property	227,904	466,440
Restricted Cash - Imagine Your Grand Tomorrow Campaign	7,228	107,870
Restricted Investments in Marketable Securities - Imagine Your Grand Tomorrow Campaign	93,935	94,357
Contributions Receivable - Imagine Your Grand Tomorrow Campaign	9,020	15,020
Contributions Receivable - Acquisition of Property	119,533	119,179
Beneficial Interest in Perpetual Trusts	4,724,099	4,687,980
<b>TOTAL OTHER ASSETS</b>	<b>5,181,719</b>	<b>5,490,846</b>
<b>TOTAL ASSETS</b>	<b>\$ 12,298,313</b>	<b>\$ 13,799,869</b>

**LIABILITIES AND NET ASSETS**

	<b>2018</b>	<b>2017</b>
<b>CURRENT LIABILITIES</b>		
Notes Payable	\$ 764,714	\$ 452,154
Current Portion of Capital Lease Obligation	7,858	6,400
Accounts Payable	202,585	231,233
Accrued Expenses	105,567	121,000
Advance Production, Program Book, and Subscription Income	910,678	1,412,706
Advance Rental Income	34,130	30,806
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,025,532</b>	<b>2,254,299</b>
<b>LONG-TERM LIABILITIES</b>		
Notes Payable	67,067	172,769
Capital Lease Obligation - Net of Current Portion	7,098	17,507
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>74,165</b>	<b>190,276</b>
<b>TOTAL LIABILITIES</b>	<b>2,099,697</b>	<b>2,444,575</b>
<b>NET ASSETS</b>		
Unrestricted	4,729,738	5,327,440
Temporarily Restricted	744,779	1,339,874
Permanently Restricted	4,724,099	4,687,980
<b>TOTAL NET ASSETS</b>	<b>10,198,616</b>	<b>11,355,294</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 12,298,313</b>	 <b>\$ 13,799,869</b>

The accompanying notes are an integral part of these financial statements.

**GRAND OPERA HOUSE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JULY 31, 2018 AND 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE AND SUPPORT</b>				
Ticket Sales	\$ 3,879,370	\$ -	\$ -	\$ 3,879,370
Rental Income	462,209	-	-	462,209
Service Charges and Other Income	945,873	-	-	945,873
Business Contributions	369,750	16,950	-	386,700
Individual Contributions	305,428	-	-	305,428
Foundations and Grants	74,140	75,200	-	149,340
Delaware State Arts Council	-	75,000	-	75,000
Delaware Performing Arts Center	180,000	-	-	180,000
Trust Distributions	38,372	-	-	38,372
Arts Stabilization Fund	1,774	303,263	-	305,037
Fundraising	398,654	-	-	398,654
Net Assets Released from Restrictions	1,065,508	(1,065,508)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>7,721,078</b>	<b>(595,095)</b>	<b>-</b>	<b>7,125,983</b>
<b>EXPENSES</b>				
Program Services	6,504,712	-	-	6,504,712
Support Activities	2,075,264	-	-	2,075,264
<b>TOTAL EXPENSES</b>	<b>8,579,976</b>	<b>-</b>	<b>-</b>	<b>8,579,976</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>(858,898)</b>	<b>(595,095)</b>	<b>-</b>	<b>(1,453,993)</b>
<b>ENDOWMENT AND OTHER NONOPERATING ACTIVITIES</b>				
Interest and Dividends	4,550	-	-	4,550
Unrealized Gain (Loss) on Marketable Securities	(426)	-	-	(426)
Increase (Decrease) in Beneficial Interest in Perpetual Trusts	-	-	36,119	36,119
Gain from Insurance Proceeds	257,072	-	-	257,072
<b>CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES</b>	<b>261,196</b>	<b>-</b>	<b>36,119</b>	<b>297,315</b>
<b>CHANGE IN NET ASSETS</b>	<b>(597,702)</b>	<b>(595,095)</b>	<b>36,119</b>	<b>(1,156,678)</b>
<b>NET ASSETS - Beginning of Year</b>	<b>5,327,440</b>	<b>1,339,874</b>	<b>4,687,980</b>	<b>11,355,294</b>
<b>NET ASSETS - End of Year</b>	<b>\$ 4,729,738</b>	<b>\$ 744,779</b>	<b>\$ 4,724,099</b>	<b>\$ 10,198,616</b>

**2017**

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,891,891	\$ -	\$ -	\$ 3,891,891
525,244	-	-	525,244
920,829	-	-	920,829
389,579	36,816	-	426,395
454,378	-	-	454,378
298,523	76,277	-	374,800
-	260,700	-	260,700
200,000	-	-	200,000
64,820	-	-	64,820
60,576	252,394	-	312,970
372,260	-	-	372,260
<u>1,388,294</u>	<u>(1,388,294)</u>	<u>-</u>	<u>-</u>
<u>8,566,394</u>	<u>(762,107)</u>	<u>-</u>	<u>7,804,287</u>
7,116,062	-	-	7,116,062
<u>2,051,764</u>	<u>-</u>	<u>-</u>	<u>2,051,764</u>
<u>9,167,826</u>	<u>-</u>	<u>-</u>	<u>9,167,826</u>
<u>(601,432)</u>	<u>(762,107)</u>	<u>-</u>	<u>(1,363,539)</u>
4,707	-	-	4,707
2,195	-	-	2,195
-	-	344,675	344,675
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>6,902</u>	<u>-</u>	<u>344,675</u>	<u>351,577</u>
(594,530)	(762,107)	344,675	(1,011,962)
<u>5,921,970</u>	<u>2,101,981</u>	<u>4,343,305</u>	<u>12,367,256</u>
<u>\$ 5,327,440</u>	<u>\$ 1,339,874</u>	<u>\$ 4,687,980</u>	<u>\$ 11,355,294</u>

The accompanying notes are an integral part of these financial statements.



**GRAND OPERA HOUSE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Ticket Sales and Events	\$ 5,327,271	\$ 5,163,553
Cash Received from Rentals	465,533	550,289
Grants and Contributions Received	1,959,752	2,585,341
Cash Paid to Suppliers and Employees	(8,422,091)	(8,216,967)
Interest Received	4,550	4,707
Interest Paid	(6,282)	(4,894)
	<b>(671,267)</b>	<b>82,029</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(443,236)	(256,230)
Net Cash Received from Insurance Proceeds	257,072	-
	<b>(186,164)</b>	<b>(256,230)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing on Notes Payable	893,090	289,806
Repayments of Notes Payable	(686,232)	(318,678)
Proceeds (Disbursements) from Contributions Received for Investment in Capital	(71,701)	189,179
Payments of Capital Lease Obligation	(8,951)	(5,752)
	<b>126,206</b>	<b>154,555</b>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>(731,225)</b>	<b>(19,646)</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of Year</b>	<b>850,121</b>	<b>869,767</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of Year</b>	<b>\$ 118,896</b>	<b>\$ 850,121</b>

The accompanying notes are an integral part of these financial statements.

**GRAND OPERA HOUSE, INC.**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**YEARS ENDED JULY 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (1,156,678)</b>	<b>\$ (1,011,962)</b>
Adjustment to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Amortization	6,673	6,673
Depreciation	853,087	804,400
Unrealized (Gain) Loss on Marketable Securities	426	(2,195)
(Increase) Decrease in Beneficial Interest in Perpetual Trusts	(36,119)	(344,675)
(Gain) Loss from Insurance Proceeds	(257,072)	-
Contributions (Received) Disbursed for Investment in Capital	71,701	(189,179)
Bad Debt	-	10,000
(Increase) Decrease in		
Accounts Receivable	12,622	(5,019)
Contributions Receivable	285,182	673,668
Prepaid Expenses	91,696	(24,988)
Inventory	-	219
Increase (Decrease) in		
Accounts Payable	(28,648)	219,967
Accrued Expenses	(15,433)	(81,062)
Advance Production, Program Book, and Subscription Income	(502,028)	1,137
Advance Rental Income	3,324	25,045
	<b>\$ (671,267)</b>	<b>\$ 82,029</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ (671,267)</b>	<b>\$ 82,029</b>

The accompanying notes are an integral part of these financial statements.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2018**

**NOTE 1: NATURE OF BUSINESS**

Grand Opera House, Inc. (Organization) was chartered by the State of Delaware on January 8, 1973, as a charitable, nonprofit corporation for the purpose of maintaining the Organization as an historic landmark and a center for the performing arts to provide the opportunity for Delawareans and regional residents to enrich their lives through the arts.

Because the performing arts are an integral dimension of life and historic buildings are a valuable segment of American culture, the Organization strives to expand people's horizons by presenting a wide variety of artistically acclaimed performers and by preserving one of Delaware's architectural landmarks. The Organization features established and emerging artists whose performances take advantage of its intimate size and superb acoustics. Its programming reflects and celebrates the cultural diversity of the community and provides educational opportunities, helping to ensure culturally literate future generations of audiences. By maintaining its architectural integrity, technical excellence, and commitment to serve as the venue of choice for Delaware's performing arts organizations, the Organization exerts a continuing influence on the revitalization of downtown Wilmington, Delaware, enhances the cultural resources of the Brandywine Valley, and remains a nationally acclaimed, restored historic theater. The Organization is a nonprofit institution, committed to preserving its long-term financial strength through a responsible balance of earned income and contributed support.

In January 2015, the Organization assumed operation of another historic theater in downtown Wilmington, The DuPont Theatre (which was renamed The Playhouse on Rodney Square). The Playhouse opened in 1913 as one of the select theaters across the country to be included on the Broadway touring circuit. Now more than 100 years old, The Playhouse is the oldest, continuously operating theater on the national circuit. The Organization has supplemented the Playhouse's core schedule of six to eight musicals annually with a growing program of other performances that complement those featured in their Copeland Hall and Baby Grand venues. Although the Organization acquired the theater business and some purchased assets (database, phone number, advance ticket sales, etc.) from the DuPont Company, it operates the facility under a lease with 1007 Market LLC. (Note 7).

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition** - The Organization reports ticket sales and service charges for future years as deferred revenue. The revenue is recognized in the year of the performance.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains its cash in bank accounts at high quality financial institutions. The balances, at times, exceed federally insured limits. As of July 31, 2018 and 2017, uninsured balances held at the Organization's financial institutions were \$0 and \$547,721, respectively.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Restricted Cash** - The Organization has classified as restricted cash and cash equivalents contributions acquired from its Imagine Your Grand Tomorrow Capital Campaign to reinvest in capital infrastructure to complete deferred repairs and upgrade systems and equipment; retire residual debt and capitalized interest; and add to endowment support to enhance long-term operating support in addition to contributions received and restricted to investment in capital.

**Inventory** - Inventory is stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

**Contributions** - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization reports gifts of cash or other assets as permanently restricted support if the donor uses an intermediary organization as its agent or trustee to transfer the assets, unless the donor explicitly grants the agent or trustee the unilateral power to redirect the use of the transferred assets to another beneficiary. The contribution is measured at the present value of the estimated future cash receipts from the assets held in trust, generally measured by the fair value of those assets. Annual distributions from the trust are reported as income, which increases unrestricted net assets. Adjustments to the amount reported as an asset are recognized as permanently restricted gains or losses.

**Contributions Receivable** - Unconditional contributions receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of benefits received. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met and the pledges become unconditional.

Unconditional contributions receivable are reported at net realizable value if, at the time the pledge is made, payment is expected to be received in one year or less. Unconditional contributions receivable that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Organization elected

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Contributions Receivable - Continued* - the fair value option in accordance with generally accepted accounting principles. Management believes that the use of fair value reduces the cost of measuring unconditional contributions receivable in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those pledges were measured using historical discount rates.

*Property and Equipment* - Property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Expenditures for maintenance and repairs are charged to expense as incurred; costs or renewals and betterments are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in the statements of activities.

The cost of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. Depreciation expense was \$853,087 and \$804,400 during the years ended July 31, 2018 and 2017, respectively. No value has been assigned and recorded on the accompanying financial statements to the basic building structure, since it reverts to the grantor of the deed if the Organization ceases to be a performing arts center.

*Capital Leases* - The Organization leases certain equipment under various lease agreements that meet the definition of capital leases. The assets and liabilities under the capital leases are originally recorded at the present value of the minimum lease payments, which approximate the fair value of the asset. The asset is subsequently depreciated over its lease term, which is its estimated productive life. Amortization of the assets under these capital leases is included in amortization expense. Amortization expense was \$6,673 during the years ended July 31, 2018 and 2017, respectively.

*Impairment of Long-Lived Assets* - The Organization reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the statement of activities, to its current value. There was no impairment loss recorded during the years ended July 31, 2018 and 2017.

*Advertising* - Advertising costs are expensed as incurred and totaled \$610,107 and \$884,440 for the years ended July 31, 2018 and 2017, respectively.

*Estimates* - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Accounts Receivable* - Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end.

The Organization has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. Bad debt expense for the years ended July 31, 2018 and 2017 was \$0 and \$10,000, respectively.

*Donated Services* - Services received as donations are recorded at their fair values at the date of receipt. Donated services were \$0 for the years ended July 31, 2018 and 2017.

*Fair Value Measurements* - The Organization follows fair value measurements and disclosures standards in accordance with accounting principles generally accepted in the United States of America. The standard applies to all assets and liabilities that are being measured and reported on a fair value basis. The standard establishes a framework for measuring fair value under generally accepted accounting principles, and requires disclosures about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market-based inputs or unobservable market based inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of July 31, 2018 and 2017.

Marketable Securities - Valued at the quoted price as reported on the active market in which the securities are traded.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Fair Value Measurements - Continued*

Contributions Receivable - Fair value estimation based on present value techniques that consider estimated future cash flows.

Beneficial Interest in Perpetual Trusts - Fair value is based on the percentage of the trusts designated to the Organization to the total fair value of the trust, which is based on quoted market prices of underlying assets when available.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds - Large Value	\$ 93,935	\$ -	\$ -	\$ 93,935
Contributions Receivable	-	-	642,649	642,649
Beneficial Interest in Perpetual Trust	-	4,724,099	-	4,724,099
Total	<u>\$ 93,935</u>	<u>\$ 4,724,099</u>	<u>\$ 642,649</u>	<u>\$ 5,460,683</u>

  

	2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds - Large Value	\$ 94,357	\$ -	\$ -	\$ 94,357
Contributions Receivable	-	-	927,831	927,831
Beneficial Interest in Perpetual Trust	-	4,687,980	-	4,687,980
Total	<u>\$ 94,357</u>	<u>\$ 4,687,980</u>	<u>\$ 927,831</u>	<u>\$ 5,710,168</u>

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Fair Value Measurements - Continued*

The changes in contributions receivable measured at fair value, for which the Organization has categorized as level 3 were as follows:

	<u>2018</u>	<u>2017</u>
Balance - Beginning of Year	\$ 927,831	\$ 1,601,499
Amounts Pledged	653,661	501,805
Cash Received	(938,843)	(1,175,537)
Change in Discount	<u>-</u>	<u>64</u>
Balance - End of Year	<u>\$ 642,649</u>	<u>\$ 927,831</u>

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES**

Investments in marketable securities consisted of the following as of July 31:

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized</u>
Mutual Funds - Large Value	<u>\$ 100,000</u>	<u>\$ 93,935</u>	<u>\$ (6,065)</u>
	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized</u>
Mutual Funds - Large Value	<u>\$ 100,000</u>	<u>\$ 94,357</u>	<u>\$ (5,643)</u>

Interest and dividends earned on investments in marketable securities are presented in the statements of activities in the amount of \$4,550 and \$4,707 for the years ended July 31, 2018 and 2017, respectively. Investment fees of \$150 are included in bank service fees in the statements of functional expenses for the years ended July 31, 2018 and 2017.



**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 4: CONTRIBUTIONS RECEIVABLE**

Contributions receivable were comprised of the following:

	2018	2017
Grant Awards	\$ 426,080	\$ 784,610
Grand Gala	31,350	1,350
Imagine Your Grand Tomorrow Campaign	9,020	15,020
Other - Individuals and Corporate	176,199	126,851
Total Contributions Receivable	\$ 642,649	\$ 927,831

As of July 31, 2018 and 2017, all pledges are due within one year and considered by management to be fully collectible.

**NOTE 5: BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

On December 19, 1984, the Organization entered into an agreement with the Delaware Performing Arts Center, Inc. (DPAC), a nonprofit organization under which the Grand Opera House, Inc. made available to DPAC donated funds totaling \$2,500,000 with the understanding that DPAC would apply its best efforts and all of its assets to the exclusive public purpose of ensuring the use of the Grand Opera House, Inc. as a theater for the performing arts. In conjunction with the aforesaid agreement, the City of Wilmington and New Castle County agreed to donate \$250,000 each and the State of Delaware agreed to donate \$2,000,000 to DPAC for use until such time as the Grand Opera House, Inc. would cease operations as a center for the performing arts. The fair value of the assets held in trust by DPAC was \$3,451,560 and \$3,447,228 as of July 31, 2018 and 2017, respectively.

In accordance with the terms of this agreement, the Grand Opera House, Inc. recorded revenue totaling \$180,000 and \$200,000 from DPAC during the years ended July 31, 2018 and 2017, respectively.

The Organization is also the beneficiary of a trust agreement whereby bequeathed assets are held in trust by a bank. Income from the trust is to be paid in perpetuity to five charitable organizations, one being the Grand Opera House, Inc. The fair value of the assets held in trust for the Organization was \$1,272,539 and \$1,240,752 as of July 31, 2018 and 2017, respectively.

In accordance with the terms of the trust agreement, the Organization received distributions totaling \$56,874 and \$64,820 during the years ended July 31, 2018 and 2017, respectively.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 5: BENEFICIAL INTEREST IN PERPETUAL TRUSTS - CONTINUED**

The net assets associated with the Organization's beneficial interest in the perpetual trust are reported as permanently restricted. Management does not believe that beneficial interests in a charitable perpetual trust are within the scope of FASB ASC 958 in regard to required disclosures for endowments, because in contrast to donor-restricted endowment funds, no ongoing decisions about the investment of the trust or distributions from the trust are within the authority of the Organization.

**NOTE 6: DELAWARE ARTS STABILIZATION FUND GRANT**

The Delaware Arts Stabilization Fund (DASF) resulted from an agreement, dated June 17, 1993, between the State of Delaware's Division of the Arts, eight of the primary arts organizations in Delaware (the cultural organizations), and the Delaware Community Foundation (DCF) to join together, organize, and conduct a campaign to secure the current and future financial needs of these cultural organizations. Grand Opera House, Inc. is one of the cultural organizations. The DASF raised over \$21,500,000 to meet these needs, including \$5,000,000 from the State of Delaware. The funds are administered and invested in DCF, a commingled investment fund for the benefit of the cultural organizations. These assets are excluded from the Grand Opera House, Inc.'s financial statements, since DCF holds variance power over such assets.

During the years ended July 31, 2018 and 2017, the Organization received \$305,037 and \$312,970, respectively, in grants from DASF.

**NOTE 7: COMMITMENTS**

During 2016 the Organization had an operating lease agreement for the premises of the Playhouse expiring June 2017. In April 2017, the lease was amended to extend the agreement for two years and two months beginning April 2017. Future minimum lease payments for the year ending July 31, 2019 are \$53,525. Total rent expense for the years ended July 31, 2018 and 2017 totaled \$80,066 and \$130,384, respectively, of which \$0 and \$48,800 respectively, was contributed by the lessor.

The Organization has an agreement for the purpose of collective bargaining with respect to rates of pay, hours, and other employment conditions for theater actors and staff. On August 31, 2017, the agreement automatically renewed through August 31, 2018. Approximately 13% and 15% of the Organization's salaries were paid under this agreement during the years ended July 31, 2018 and 2017, respectively. As of the date the financial statements were available to be issued, the agreement, which terminated on August 31, 2018, had not yet been renewed.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 8: NET ASSETS**

Temporarily restricted net assets were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Imagine Your Grand		
Tomorrow Campaign	\$ 157,509	\$ 217,247
Capital Improvements	282,590	585,619
Subsequent Year's Operations	183,730	478,915
Program Activities	<u>120,950</u>	<u>58,093</u>
Total	<u>\$ 744,779</u>	<u>\$ 1,339,874</u>

Permanently restricted net assets were comprised of the following:

	<u>2018</u>	<u>2017</u>
Assets Held in Trust	<u>\$ 4,724,099</u>	<u>\$ 4,687,980</u>

**NOTE 9: FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

	<u>2018</u>	<u>2017</u>
Program Services		
Production	\$ 6,276,602	\$ 6,837,948
Outreach and Education	<u>228,110</u>	<u>278,114</u>
Total Program Services Expenses	<u>6,504,712</u>	<u>7,116,062</u>
Support Activities		
Administration	961,857	922,674
Facility	535,475	539,485
Marketing	125,554	91,513
Fundraising	<u>452,378</u>	<u>498,092</u>
Total Support Activities Expenses	<u>2,075,264</u>	<u>2,051,764</u>
Total Expenses	<u>\$ 8,579,976</u>	<u>\$ 9,167,826</u>

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 10: TAX STATUS**

The Organization qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and its activities are not subject to income tax.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2014 due to the expiration of the statute of limitations.

**NOTE 11: PENSION PLAN**

The Organization provides a defined contribution pension plan for full-time employees with two years of employment and part-time employees with 1,000 or more hours per year. Prior to fiscal year 2013, the Organization contributed to the plan 2.5% of eligible annual salaries. During fiscal year 2013, employer contributions to the plan were suspended. Employees are fully vested after two years.

**NOTE 12: NOTES PAYABLE**

*M&T Bank* - As of July 31, 2013, the Organization was obligated under two notes payable to M&T Bank as follows:

Mortgage Note Payable (1201 Loan)	\$ 3,507,293
Demand Note Payable (1301 Loan)	285,884

During the year ended July 31, 2014, the Organization entered into an agreement with M&T Bank related to the two aforementioned notes payable. Under the terms of the agreement, the Organization agreed to make annual principal payments of \$200,000 through the year ended July 31, 2017 for a total aggregate sum of \$1,000,000. As security for the Organization's obligations under this agreement, the Organization pledged and collaterally assigned to M&T Bank its right, title, and interest in 1735 Del Gesu Partners, L.P. The agreement was also secured by a mortgage on certain property owned by the Organization, personal property, and an assignment of rents. In addition, the Organization paid a portion of the proceeds received from the assignment and transfer of tax credits granted for certain restoration work at its facilities. The Organization was not obligated to make payments of interest to M&T Bank; however, interest continued to accrue at a fixed rate of 5%. Upon timely receipt of the annual principal payments, there would be no further obligation with respect to the accrued interest balance. The Organization was not obligated to make payments for interest accrued prior to the execution of this agreement.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 12: NOTES PAYABLE - CONTINUED**

Due to the terms of the pledge and collateral assignment of the L.P. interest described above, the asset was derecognized during the year ended July 31, 2014. As a result, the Organization recognized a gain totaling \$1,879,365 in the statement of activities for the year ended July 31, 2014.

During the years ended July 31, 2018 and 2017, principal payments totaling \$0 and \$200,000, respectively, were paid in accordance with the agreement. As of July 31, 2017, there were no outstanding principal payments. Final settlement of the agreement will occur upon the dissolving of the Del Gesu, L.P. and transfer of the sale proceeds to M&T Bank, which is expected to occur during 2023.

**BankDirect Capital Finance** - During the year ended July 31, 2018, the Organization entered into an agreement with BankDirect Capital Finance to finance insurance premiums. Under the terms of the agreement, the Organization financed \$93,060 and agreed to make 10 monthly payments of \$9,604, including interest at 6.92%, beginning April 1, 2018. The debt is collateralized by a security interest in each policy.

During the year ended July 31, 2017, the Organization entered into an agreement with BankDirect Capital Finance to finance insurance premiums. Under the terms of the agreement, the Organization financed \$89,806 and agreed to make 10 monthly payments of \$9,236, including interest at 6.17%, beginning April 1, 2017. The debt was collateralized by a security interest in each policy.

**Delaware Community Foundation (DCF)** - In March 2017, the Organization received a working capital loan from DCF in the amount of \$250,000. The loan bears interest at 1.0% and is unsecured. The loan was satisfied in March 2018. In March 2018, the Organization received a working capital loan from DCF in the amount of \$300,000. The loan bears interest at 2.04%, is unsecured, and is payable in full in March 2019.

**CIT Bank** - During the year ended July 31, 2016, the Organization entered into an installment purchase agreement to purchase certain equipment. Under the terms of the agreement, the Organization financed \$169,346 and agreed to make 60 monthly payments of \$3,192, including interest at 4.9%, beginning June 2016. The debt is collateralized by a security interest in the equipment.

**Related Party** - During the year ended July 31, 2017, a related party advanced the Organization \$200,000. The loan bears no interest and requires a \$50,000 payment in September 2017 with subsequent quarterly payments of \$25,000 beginning December 2017

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 12: NOTES PAYABLE - CONTINUED**

Maturities of notes payable are as follows as of July 31:

	2019	\$	764,714
	2020		35,819
	2021		<u>31,248</u>
	Total	\$	<u><u>831,781</u></u>

**NOTE 13: CAPITAL LEASE OBLIGATION**

The Organization is a party to a capital lease obligation relating to equipment. The capital lease has an imputed interest rate of 20.7%.

Future minimum payments under the capital leases as of July 31, 2018 are as follows:

	2019	\$	10,764
	2020		<u>10,764</u>
	Total Minimum Lease Payments		21,528
	Less: Amount Representing Interest and Maintenance Expenses		<u>6,572</u>
	Present Value of Minimum Lease Payments		14,956
	Less: Current Maturities		<u>7,858</u>
	Long-Term Portion	\$	<u><u>7,098</u></u>

Total equipment under the capital lease obligations as of July 31, 2018 and 2017 has a cost of \$33,364, and accumulated amortization of \$20,019 and \$13,346, respectively.

**NOTE 14: SUBSEQUENT EVENTS**

Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 15: RELATED PARTIES**

A board member of the Organization advanced the Organization \$200,000 during the year ended July 31, 2017 (Note 12).

A board member of the Organization serves as the Vice President of Card Services at the financial institution in which the Organization maintains company credit cards and cash and cash equivalent accounts.

A board member of the Organization also serves on the board of DPAC. DPAC is the trustee of a perpetual trust in which the Organization has a beneficial interest (Note 5).

**NOTE 16: CASH, CASH EQUIVALENTS, AND RESTRICTED CASH**

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ (116,236)	\$ 275,811
Restricted Cash - Acquisiton of Property	227,904	466,440
Restricted Cash - Imagine Your Grand Tomorrow Campaign	<u>7,228</u>	<u>107,870</u>
 Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statements of Cash Flows	 <u>\$ 118,896</u>	 <u>\$ 850,121</u>

**GRAND OPERA HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JULY 31, 2018**

**NOTE 17: RESTATEMENT**

The Organization has restated its 2017 financial statements to more adequately reflect the reporting period in which service charges for future shows are earned. The following summarizes the restatement:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<u>As of July 31, 2017</u>			
Advance Production, Program Book, and Subscription Income	\$ 1,193,179	\$ 219,527	\$ 1,412,706
Total Liabilities	2,225,048	219,527	2,444,575
Unrestricted Net Assets	5,546,967	(219,527)	5,327,440
Total Net Assets	11,574,821	(219,527)	11,355,294
<u>For the Year Ended July 31, 2017</u>			
Ticket Sales	3,887,112	4,779	3,891,891
Service Charges and Other Income	931,034	(10,205)	920,829
Change in Unrestricted Net Assets	(589,104)	(5,426)	(594,530)
Change in Total Net Assets	(1,006,536)	(5,426)	(1,011,962)



**SUPPLEMENTARY INFORMATION**

**GRAND OPERA HOUSE, INC.**  
**SCHEDULES OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JULY 31, 2018 AND 2017**

	<u>Program Services</u>			<u>Supporting</u>
	<u>Production</u>	<u>Outreach and Education</u>	<u>Total</u>	<u>Administration</u>
<b>SALARIES AND RELATED EXPENSES</b>				
Salaries	\$ 977,836	\$ 116,038	\$ 1,093,874	\$ 558,531
Payroll Taxes	71,558	8,179	79,737	104,256
Employee Benefits	44,640	14,788	59,428	39,883
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	1,094,034	139,005	1,233,039	702,670
<b>EXPENSES</b>				
Advertising	599,231	10,876	610,107	-
Amortization	-	-	-	-
Artists' Fees	2,677,396	-	2,677,396	-
Bad Debts	-	-	-	-
Bank Service Fees	129,973	-	129,973	11,507
Complimentary Show Tickets	-	8,115	8,115	-
Concessions	-	-	-	-
Conferences and Staff	7,488	3,320	10,808	5,848
Consultants' Fees	21,000	-	21,000	19,486
Depreciation	-	-	-	-
Dues and Subscriptions	2,581	-	2,581	6,603
Equipment Maintenance Contracts	-	-	-	-
Equipment Rental	110,141	19,908	130,049	3,727
Fees and Commissions	45,064	2,339	47,403	4,135
Insurance	-	-	-	34,759
Interest Expense	-	-	-	6,282
Miscellaneous	5,166	3,603	8,769	11,812
Office Services	-	-	-	12,989
Postage	-	-	-	35,801
Printing	-	-	-	5,499
Professional Fees	-	-	-	33,721
Rent Expense	-	-	-	-
Repairs and Maintenance	1,650	535	2,185	-
Scholarships	-	7,420	7,420	-
Security Services	3,165	9,940	13,105	-
Special Events	-	-	-	-
Supplies	1,417	-	1,417	17,355
Taxes and Licenses	39,177	-	39,177	602
Telephone	-	-	-	44,910
Temporary Employment Services	-	19,520	19,520	-
Travel and Entertainment	12,180	3,529	15,709	4,151
Utilities	-	-	-	-
<b>TOTAL EXPENSES</b>	4,749,663	228,110	4,977,773	961,857
<b>ALLOCATION OF EXPENSES</b>				
Facility and Marketing	1,526,939	-	1,526,939	-
<b>TOTAL YEAR ENDED JUNE 30, 2018</b>	<u>\$ 6,276,602</u>	<u>\$ 228,110</u>	<u>\$ 6,504,712</u>	<u>\$ 961,857</u>
<b>TOTAL YEAR ENDED JUNE 30, 2017</b>	<u>\$ 6,837,948</u>	<u>\$ 278,114</u>	<u>\$ 7,116,062</u>	<u>\$ 922,674</u>

**Services**

Facility	Marketing	Fund-raising	Total	Year Ended July 31	
				2018	2017
\$ 259,242	\$ 228,842	\$ 168,386	\$ 1,215,001	\$ 2,308,875	\$ 2,429,054
22,257	16,811	11,596	154,920	234,657	217,652
39,846	32,367	17,405	129,501	188,929	301,824
321,345	278,020	197,387	1,499,422	2,732,461	2,948,530
-	-	-	-	610,107	884,440
6,673	-	-	6,673	6,673	6,673
-	-	-	-	2,677,396	2,916,575
-	-	-	-	-	10,000
-	-	-	11,507	141,480	136,572
-	-	-	-	8,115	6,974
58,557	-	-	58,557	58,557	59,363
598	8,472	180	15,098	25,906	5,845
-	27,978	-	47,464	68,464	75,568
853,087	-	-	853,087	853,087	804,400
-	-	-	6,603	9,184	10,288
40,736	-	-	40,736	40,736	23,368
16,504	-	-	20,231	150,280	81,104
-	-	-	4,135	51,538	90,454
79,582	-	-	114,341	114,341	116,273
-	-	-	6,282	6,282	4,894
2,635	90,425	18,167	123,039	131,808	53,844
-	-	-	12,989	12,989	15,357
-	-	6,751	42,552	42,552	23,559
-	-	-	5,499	5,499	7,494
-	-	-	33,721	33,721	1,775
80,066	-	-	80,066	80,066	130,384
6,215	7,237	-	13,452	15,637	37,803
-	-	-	-	7,420	8,823
-	-	-	-	13,105	5,390
-	-	207,811	207,811	207,811	234,341
27,615	-	-	44,970	46,387	46,503
2,735	-	22,082	25,419	64,596	64,415
-	-	-	44,910	44,910	46,019
-	-	-	-	19,520	25,165
99	6,381	-	10,631	26,340	12,817
273,008	-	-	273,008	273,008	272,816
1,769,455	418,513	452,378	3,602,203	8,579,976	\$ 9,167,826
(1,233,980)	(292,959)	-	(1,526,939)	-	-
\$ 535,475	\$ 125,554	\$ 452,378	\$ 2,075,264	\$ 8,579,976	
\$ 539,485	\$ 91,513	\$ 498,092	\$ 2,051,764	\$ 9,167,826	