

GRAND OPERA HOUSE, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JULY 31, 2016 AND 2015

GRAND OPERA HOUSE, INC.
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JULY 31, 2016 AND 2015

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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 statement of financial position as of July 31, 2016, and the related statement of activities and statement of cash flows for the year 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 audit. We conducted our audit 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 July 31, 2016 financial statements referred to above present fairly, in all material respects, the financial position of Grand Opera House, Inc. as of July 31, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of Grand Opera House, Inc. as of July 31, 2015 were audited by other auditors whose report dated February 22, 2016 expressed an unmodified opinion on those financial statements.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 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.

January 16, 2017

Wilmington, Delaware

GRAND OPERA HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 751,679	\$ 1,186,155
Restricted Cash	118,088	118,048
Investment in Marketable Securities	92,162	95,418
Accounts Receivable	22,493	284,077
Contributions Receivable	1,595,479	1,425,005
Inventory	20,988	17,838
Prepaid Expenses	<u>199,567</u>	<u>192,216</u>
TOTAL CURRENT ASSETS	<u>2,800,456</u>	<u>3,318,757</u>
PROPERTY AND EQUIPMENT		
Land	679,600	679,600
Building and Improvements	26,899,758	26,852,071
Equipment	<u>1,745,560</u>	<u>1,470,132</u>
	29,324,918	29,001,803
Less: Accumulated Depreciation and Amortization	<u>21,793,331</u>	<u>20,964,115</u>
TOTAL PROPERTY AND EQUIPMENT, NET	<u>7,531,587</u>	<u>8,037,688</u>
OTHER ASSETS		
Contributions Receivable	6,020	16,420
Beneficial Interest in Perpetual Trusts	<u>4,343,305</u>	<u>4,695,244</u>
TOTAL OTHER ASSETS	<u>4,349,325</u>	<u>4,711,664</u>
TOTAL ASSETS	<u><u>\$ 14,681,368</u></u>	<u><u>\$ 16,068,109</u></u>

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Notes Payable - Bank	\$ 200,000	\$ 200,000
Notes Payable - Delaware Community Foundation	250,000	250,000
Current Portion of Capital Lease Obligation	36,144	5,098
Accounts Payable	212,956	315,858
Accrued Expenses	202,062	379,609
Advance Production, Program Book, and Subscription Income	1,037,641	1,409,508
Advance Rental Income	5,761	12,174
TOTAL CURRENT LIABILITIES	1,944,564	2,572,247
LONG-TERM LIABILITIES		
Notes Payable - Bank	-	200,000
Capital Lease Obligation - Net of Current Portion	155,447	28,266
TOTAL LONG-TERM LIABILITIES	155,447	228,266
TOTAL LIABILITIES	2,100,011	2,800,513
NET ASSETS		
Unrestricted	5,693,002	6,566,211
Temporarily Restricted	2,545,050	2,006,141
Permanently Restricted	4,343,305	4,695,244
TOTAL NET ASSETS	12,581,357	13,267,596
TOTAL LIABILITIES AND NET ASSETS	\$ 14,681,368	\$ 16,068,109

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

GRAND OPERA HOUSE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JULY 31, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Ticket Sales	\$ 4,492,115	\$ -	\$ -	\$ 4,492,115
Rental Income	470,780	-	-	470,780
Service Charges and Other Income	907,208	-	-	907,208
Business Contributions	206,638	16,598	-	223,236
Individual Contributions	294,383	-	-	294,383
Foundations and Grants	315,973	927,577	-	1,243,550
Delaware State Arts Council	-	265,000	-	265,000
Delaware Performing Arts Center	200,000	-	-	200,000
Trust Distributions	64,520	-	-	64,520
Arts Stabilization Fund	83,095	245,906	-	329,001
Fundraising	407,749	-	-	407,749
Net Assets Released from Restrictions	916,172	(916,172)	-	-
TOTAL REVENUE AND SUPPORT	8,358,633	538,909	-	8,897,542
EXPENSES				
Program Services	6,715,978	-	-	6,715,978
Support Activities	2,516,974	-	-	2,516,974
TOTAL EXPENSES	9,232,952	-	-	9,232,952
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(874,319)	538,909	-	(335,410)
ENDOWMENT AND OTHER NONOPERATING ACTIVITIES				
Interest and Dividends	4,366	-	-	4,366
Unrealized Loss on Marketable Securities	(3,256)	-	-	(3,256)
Decrease in Beneficial Interest in Perpetual Trusts	-	-	(351,939)	(351,939)
Gain on Disposal of Equipment	-	-	-	-
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	1,110	-	(351,939)	(350,829)
CHANGE IN NET ASSETS	(873,209)	538,909	(351,939)	(686,239)
NET ASSETS - Beginning of Year	6,566,211	2,006,141	4,695,244	13,267,596
NET ASSETS - End of Year	\$ 5,693,002	\$ 2,545,050	\$ 4,343,305	\$ 12,581,357

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,955,981	\$ -	\$ -	\$ 2,955,981
501,899	-	-	501,899
1,031,914	-	-	1,031,914
136,354	-	-	136,354
212,301	-	-	212,301
56,130	26,765	-	82,895
-	281,779	-	281,779
200,000	-	-	200,000
47,890	-	-	47,890
144,193	203,247	-	347,440
429,398	-	-	429,398
<u>1,795,739</u>	<u>(1,795,739)</u>	<u>-</u>	<u>-</u>
<u>7,511,799</u>	<u>(1,283,948)</u>	<u>-</u>	<u>6,227,851</u>
5,294,367	-	-	5,294,367
<u>2,266,197</u>	<u>-</u>	<u>-</u>	<u>2,266,197</u>
<u>7,560,564</u>	<u>-</u>	<u>-</u>	<u>7,560,564</u>
<u>(48,765)</u>	<u>(1,283,948)</u>	<u>-</u>	<u>(1,332,713)</u>
-	-	-	-
(4,582)	-	-	(4,582)
-	-	(216,440)	(216,440)
<u>1,715</u>	<u>-</u>	<u>-</u>	<u>1,715</u>
<u>(2,867)</u>	<u>-</u>	<u>(216,440)</u>	<u>(219,307)</u>
(51,632)	(1,283,948)	(216,440)	(1,552,020)
<u>6,617,843</u>	<u>3,290,089</u>	<u>4,911,684</u>	<u>14,819,616</u>
<u>\$ 6,566,211</u>	<u>\$ 2,006,141</u>	<u>\$ 4,695,244</u>	<u>\$ 13,267,596</u>

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

GRAND OPERA HOUSE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Ticket Sales and Events	\$ 6,105,594	\$ 5,592,818
Cash Received from Rentals	464,367	504,428
Grants and Contributions Received	2,432,726	1,761,086
Cash Paid to Suppliers and Employees	(9,067,612)	(6,470,393)
Interest Received	731	1,569
Interest Paid	<u>(5,354)</u>	<u>(2,343)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(69,548)</u>	<u>1,387,165</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Marketable Securities	-	(100,000)
Purchase of Property and Equipment	<u>(153,547)</u>	<u>(510,950)</u>
NET CASH FROM INVESTING ACTIVITIES	<u>(153,547)</u>	<u>(610,950)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on Notes Payable	250,000	250,000
Repayments of Notes Payable	(450,000)	(450,000)
Payments of Capital Lease Obligation	<u>(11,341)</u>	<u>(5,529)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>(211,341)</u>	<u>(205,529)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(434,436)	570,686
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,304,203</u>	<u>733,517</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 869,767</u>	<u>\$ 1,304,203</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of Property and Equipment with Capital Lease Obligation	<u>\$ 169,568</u>	<u>\$ 33,364</u>

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

GRAND OPERA HOUSE, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JULY 31, 2016 AND 2015

	2016	2015
CHANGE IN NET ASSETS	\$ (686,239)	\$ (1,552,020)
Adjustment to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Amortization	6,673	-
Depreciation	822,543	956,176
Unrealized Loss on Marketable Securities	3,256	4,582
Decrease in Beneficial Interest in Perpetual Trusts	351,939	216,440
Complimentary Show Tickets	10,083	16,627
Bad Debt	12,139	17,983
Gain from Disposal of Equipment	-	(1,715)
 (Increase) Decrease in		
Accounts Receivable	239,362	125,812
Contributions Receivable	(160,074)	479,811
Prepaid Expenses	(7,351)	(50,058)
Inventory	(3,150)	(4,768)
 Increase (Decrease) in		
Accounts Payable	(102,902)	(175,313)
Accrued Expenses	(177,547)	299,797
Advance Production, Program Book, and Subscription Income	(371,867)	1,051,282
Advance Rental Income	(6,413)	2,529
 NET CASH FROM OPERATING ACTIVITIES	\$ (69,548)	\$ 1,387,165

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

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016

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 core schedule of six to eight musicals annually with a growing program of other performances that complement those featured in Copeland Hall and the Baby Grand. 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 from the current owner, Chemours.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition - The Organization reports ticket sales 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, 2016 and 2015 uninsured balances held at the Organization's financial institutions were \$439,008 and \$826,835, respectively.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted Cash - The Organization has classified as restricted certain cash and cash equivalents acquired from its Imagine Your Grand Tomorrow Capital Campaign that are not available for use in its operations (Note 15).

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 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

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions Receivable - Continued

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 \$822,543 and \$956,176 during the years ended July 31, 2016 and 2015, 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 and \$0 during the years ended July 31, 2016 and 2015, 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, 2016 and 2015.

Investment in Limited Partnership - The limited partnership investment was recorded at the lower of cost or fair value. The investment was recorded at cost. During the year ended July 31, 2014, the investment was pledged and collaterally assigned to M&T Bank as a result of a notes payable agreement.

Advertising - Advertising costs are expensed as incurred and totaled \$573,228 and \$290,500 for the years ended July 31, 2016 and 2015, respectively.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

Donated Services - Services received as donations are recorded at their fair values at the date of receipt. Donated services were \$26,890 and \$27,384 for the years ended July 31, 2016 and 2015, respectively, and are included in revenue and expenses.

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 at July 31, 2016 and 2015.

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, 2016

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 - Valued at the net asset value (NAV) of shares held by the Organization at year end.

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:

	2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds - Large Value	\$ 92,162	\$ -	\$ -	\$ 92,162
Contributions Receivable	-	-	1,601,499	1,601,499
Beneficial Interest in Perpetual Trust	-	4,343,305	-	4,343,305
Total	\$ 92,162	\$ 4,343,305	\$ 1,601,499	\$ 6,036,966

	2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds - Large Value	\$ 95,418	\$ -	\$ -	\$ 95,418
Contributions Receivable	-	-	1,441,425	1,441,425
Beneficial Interest in Perpetual Trust	-	4,695,244	-	4,695,244
Total	\$ 95,418	\$ 4,695,244	\$ 1,441,425	\$ 6,232,087

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

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 are as follows:

	<u>2016</u>	<u>2015</u>
Balance - Beginning of Year	\$ 1,441,425	\$ 1,921,236
Amounts Pledged	1,990,504	987,793
Cash Received	(1,819,874)	(1,458,701)
Amounts Written off	(10,672)	(10,735)
Change in Discount	<u>116</u>	<u>1,832</u>
Balance - End of Year	<u>\$ 1,601,499</u>	<u>\$ 1,441,425</u>

NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES

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

	<u>2016</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized</u>
Mutual Funds - Large Value	<u>\$ 100,000</u>	<u>\$ 92,162</u>	<u>\$ (7,838)</u>
Total Investments	<u>\$ 100,000</u>	<u>\$ 92,162</u>	<u>\$ (7,838)</u>
	<u>2015</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized</u>
Mutual Funds - Large Value	<u>\$ 100,000</u>	<u>\$ 95,418</u>	<u>\$ (4,582)</u>
Total Investments	<u>\$ 100,000</u>	<u>\$ 95,418</u>	<u>\$ (4,582)</u>

Interest and dividends are presented in the statements of activities in the amount of \$4,366 and \$0 for the years ended July 31, 2016 and 2015, respectively.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 4: CONTRIBUTIONS RECEIVABLE

Contributions receivable are comprised of the following:

	2016	2015
Grant Awards	\$ 1,507,191	\$ 969,350
Grand Gala	4,500	13,010
Imagine Your Grand Tomorrow Campaign	26,020	438,020
Other	63,788	21,045
Total Contributions Receivable	\$ 1,601,499	\$ 1,441,425
	2016	2015
Receivable in Less Than One Year	\$ 1,595,479	\$ 1,425,005
Receivable in One to Five Years	6,084	16,600
Total Contributions Receivable	1,601,563	1,441,605
Discount	(64)	(180)
Contributions Receivable Measured at Fair Value	\$ 1,601,499	\$ 1,441,425

In determining fair value, multi-year contributions receivable were discounted at .65% and .48% as of July 31, 2016 and 2015, respectively.

NOTE 5: GRANTS AND CONTRIBUTIONS

Approximately 12% and 6% of the Organization's total revenues and support were provided by one contributor during the years ended July 31, 2016 and 2015, respectively. The contributors were not the same for each year.

NOTE 6: 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 is \$3,211,393 and \$3,545,954 as of July 31, 2016 and 2015, respectively.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 6: BENEFICIAL INTEREST IN PERPETUAL TRUSTS - CONTINUED

In accordance with the terms of this agreement, the Grand Opera House, Inc. recorded revenue totaling \$200,000 from DPAC during the years ended July 31, 2016 and 2015.

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 is \$1,131,912 and \$1,149,290 as of July 31, 2016 and 2015, respectively.

In accordance with the terms of the trust agreement, the Organization received distributions totaling \$64,520 and \$47,890 during the years ended July 31, 2016 and 2015, respectively.

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 7: 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, 2016 and 2015, the Organization received \$329,001 and \$347,440, respectively, in grants from DASF.

NOTE 8: COMMITMENTS

As of July 31, 2016, the Organization had entered into contracts totaling \$22,785 with various artists for future performances.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 8: COMMITMENTS - CONTINUED

The Organization has an operating lease agreement for the premises of the Playhouse Theater which expires in June 2017. If the Organization is not in default under the terms of the lease, the Organization has the option to renew the lease for a two-year term under the same terms and conditions of the lease. The future minimum lease payment under the operating lease agreement for the year ended July 31, 2017 is \$198,000. The total rent expense under the operating lease agreement for the years ended July 31, 2016 and 2015 is \$172,800 and \$100,800, respectively.

During January 2016 the Organization entered in an agreement for the purpose of collective bargaining with respect to rates of pay, hours, and other employment conditions for theater actors and staff. Approximately 16% of the Organization's salaries were paid under this agreement during the year ended July 31, 2016. The agreement expires August 31, 2016 at which time it automatically renews for an additional year, unless either party, at least 60 days prior to the expiration date notifies the other party of its desire to modify, change, or terminate the agreement. At August 31, 2016 the agreement automatically renewed through August 31, 2017.

NOTE 9: NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Imagine Your Grand		
Tomorrow Campaign	\$ 1,089,969	\$ 1,494,351
Capital Improvements	711,971	110,999
Subsequent Year's Operations	636,935	361,226
Program Activities	106,175	39,565
Total	\$ 2,545,050	\$ 2,006,141

Permanently restricted net assets are comprised of the following:

	2016	2015
Assets Held in Trust	\$ 4,343,305	\$ 4,695,244

NOTE 10: 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.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 10: FUNCTIONAL ALLOCATION OF EXPENSES - CONTINUED

	<u>2016</u>	<u>2015</u>
Program Services		
Production	\$ 6,482,006	\$ 5,074,998
Outreach and Education	<u>233,972</u>	<u>219,369</u>
Total Program Services Expenses	<u>6,715,978</u>	<u>5,294,367</u>
Support Activities		
Administration	910,459	829,466
Box Office	507,476	364,874
Fundraising	490,906	427,397
Facility	548,447	587,425
Marketing	<u>59,686</u>	<u>57,035</u>
Total Support Activities Expenses	<u>2,516,974</u>	<u>2,266,197</u>
Total Expenses	<u>\$ 9,232,952</u>	<u>\$ 7,560,564</u>

NOTE 11: 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 2012 due to the expiration of the statute of limitations.

NOTE 12: PENSION PLAN

The Organization provides a defined contribution pension plan for full-time employees with two year 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.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 13: NOTES PAYABLE

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 will 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 is 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 will not be obligated to make payments of interest to M&T Bank; however, that interest will continue to accrue at a fixed rate of 5%. Upon timely receipt of the annual principal payments, there will be no further obligation with respect to the accrued interest balance. The Organization will not be obligated to make payments for interest accrued prior to the execution of this agreement.

During the years ended July 31, 2016 and 2015, principal payments totaling \$200,000 were paid in accordance with the agreement. During the year ended July 31, 2015, a payment of \$264,000 was made to M&T Bank in conjunction with the assignment and transfer of the tax credits.

During the term of this agreement, provided that no event of default occurs, the Organization will have no further obligation under the original loan documents and applicable laws.

Maturities of long-term debt are as follows as of July 31:

2017	\$ <u>200,000</u>
Total	\$ <u><u>200,000</u></u>

Due to the terms of the pledge and collateral assignment of the L.P. interest described above, the asset has been derecognized. In addition, the balance on the outstanding 1201 Loan has been reduced as described above based upon the remaining payment and other obligations as outlined in the agreement. As a result, the Organization recognized a gain totaling \$1,879,365 in the statement of activities for the year ended July 31, 2014.

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 14: NOTES PAYABLE - DELAWARE COMMUNITY FOUNDATION

On March 24, 2016 the Organization received a working capital loan from Delaware Community Foundation in the amount of \$250,000. The loan bears interest at .63% and is unsecured. The loan is due in full on March 24, 2017.

On March 27, 2015 the Organization received a working capital loan from Delaware Community Foundation in the amount of \$250,000. The loan bears interest at .27% and is unsecured. The loan was paid in full on March 23, 2016.

NOTE 15: IMAGINE YOUR GRAND TOMORROW CAPITAL CAMPAIGN

Over the last eight years, the Organization has undertaken an energetic transformation by diversifying its programming, reducing operational costs, and strengthening relationships with the arts community. To establish a strong foundation for future success, the Organization conducted a capital campaign to raise \$8-\$10 million between 2010 and 2015 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 spite of the prolonged economic downturn, the Organization concluded the campaign in 2014 with a total raised of more than \$7 million. In doing so, the Organization has substantially achieved the goals of the campaign.

NOTE 16: CAPITAL LEASE OBLIGATION

The Organization is a party to certain capital lease obligations relating to equipment. The capital leases have imputed interest rates of 20.7% and 4.9%, respectively.

The future minimum payments under the capital leases as of July 31, 2016 are as follows:

2017	\$ 49,070
2018	49,070
2019	49,070
2020	46,983
2021	<u>31,923</u>
Total Minimum Lease Payments	226,116
Less: Amount Representing Interest and Maintenance Expenses	<u>34,525</u>
Present Value of Minimum Lease Payments	191,591
Less: Current Maturities	<u>36,144</u>
Long-Term Portion	<u><u>\$ 155,447</u></u>

GRAND OPERA HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JULY 31, 2016

NOTE 16: CAPITAL LEASE OBLIGATION - CONTINUED

Total equipment under these capital lease obligations as of July 31, 2016 and 2015 have a cost of \$202,932 and \$33,364, respectively, and accumulated amortization of \$6,673 and \$0, respectively.

NOTE 17: SUBSEQUENT EVENTS

Management has evaluated all subsequent events through January 16, 2017, the date the financial statements were available to be issued.

NOTE 18: RELATED PARTIES

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 that the Organization has a beneficial interest (Note 6).

NOTE 19: RECLASSIFICATION

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

SUPPLEMENTARY INFORMATION

GRAND OPERA HOUSE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEARS ENDED JULY 31, 2016 AND 2015

	<u>Program Services</u>			<u>Supporting</u>	
	<u>Production</u>	<u>Outreach and Education</u>	<u>Total</u>	<u>Administration</u>	<u>Box Office</u>
EXPENSES					
Salaries	\$ 861,587	\$ 142,777	\$ 1,004,364	\$ 515,969	\$ 224,393
Payroll Taxes	62,623	10,235	72,858	84,847	17,238
Employee Benefits	48,855	32,893	81,748	77,998	22,914
Temporary Employment Services	-	24,477	24,477	-	-
Postage	-	1,929	1,929	18	7,691
Dues and Subscriptions	-	-	-	3,775	234
Bank Service Fees	-	-	-	11,762	149,825
Telephone	400	1,100	1,500	39,727	-
Supplies	13,715	-	13,715	14,560	10,562
Repairs and Maintenance	17,589	-	17,589	1,270	49,270
Taxes and Licenses	16,659	-	16,659	-	-
Equipment Rental	136,542	-	136,542	2,605	-
Special Events	-	-	-	-	-
Travel and Entertainment	422	302	724	4,401	505
Miscellaneous	21,348	1,063	22,411	20,831	-
Fees and Commissions	17,654	2,682	20,336	18,789	-
Conferences and Staff	-	1,838	1,838	4,933	1,345
Artists Fees	3,100,385	-	3,100,385	-	-
Security Services	9,350	-	9,350	-	-
Advertising	-	711	711	-	-
Printing	-	1,540	1,540	4,224	-
Graphic Design	-	-	-	-	-
Complimentary Show Tickets	-	-	-	-	9,949
Professional Fees	-	-	-	21,050	-
Office Services	-	2,061	2,061	10,208	-
Utilities	-	-	-	-	-
Equipment Maintenance Contracts	-	-	-	5,591	-
Interest Expense	-	-	-	5,354	-
Consultants' Fees	-	724	724	15,125	13,550
Insurance	-	-	-	35,283	-
Scholarships	-	9,640	9,640	-	-
Concessions	-	-	-	-	-
Bad Debts	-	-	-	12,139	-
Depreciation	-	-	-	-	-
Amortization	-	-	-	-	-
Rent Expense	-	-	-	-	-
TOTAL EXPENSES	4,307,129	233,972	4,541,101	910,459	507,476
ALLOCATION OF EXPENSES					
Facility and Marketing	2,174,877	-	2,174,877	-	-
TOTAL YEAR ENDED JULY 31, 2016	\$ 6,482,006	\$ 233,972	\$ 6,715,978	\$ 910,459	\$ 507,476
TOTAL YEAR ENDED JULY 31, 2015	\$ 5,074,998	\$ 219,369	\$ 5,294,367	\$ 829,466	\$ 364,874

Services

Facility	Marketing	Fund- Raising	Total	Year Ended July 31	
				2016	2015
\$ 261,707	\$ 198,126	\$ 182,072	\$ 1,382,267	\$ 2,386,631	\$ 1,879,995
21,327	14,539	13,415	151,366	224,224	183,780
39,434	30,930	21,786	193,062	274,810	233,135
-	-	-	-	24,477	35,153
127	15,338	337	23,511	25,440	22,437
-	60	75	4,144	4,144	3,394
-	-	-	161,587	161,587	103,843
2,338	-	-	42,065	43,565	42,169
1,929	7,896	1,036	35,983	49,698	46,709
36,524	14,139	12,396	113,599	131,188	147,450
8,888	-	-	8,888	25,547	20,094
-	669	-	3,274	139,816	107,408
-	-	243,707	243,707	243,707	215,210
-	1,856	-	6,762	7,486	7,656
587	2,530	10,921	34,869	57,280	50,548
13,325	24,370	183	56,667	77,003	247,737
3,671	5,355	730	16,034	17,872	5,770
-	-	-	-	3,100,385	2,192,486
2,160	-	-	2,160	11,510	10,450
-	572,517	-	572,517	573,228	290,500
-	21,567	-	25,791	27,331	14,029
-	11,420	-	11,420	11,420	8,827
-	-	134	10,083	10,083	16,627
-	-	-	21,050	21,050	21,120
-	-	-	10,208	12,269	10,148
177,495	-	-	177,495	177,495	214,852
105,147	-	-	110,738	110,738	118,059
-	-	-	5,354	5,354	2,343
-	33,540	4,114	66,329	67,053	68,095
72,847	-	-	108,130	108,130	94,723
-	-	-	-	9,640	13,115
78,636	-	-	78,636	78,636	57,743
-	-	-	12,139	12,139	17,983
822,543	-	-	822,543	822,543	956,176
6,673	-	-	6,673	6,673	-
172,800	-	-	172,800	172,800	100,800
1,828,158	954,852	490,906	4,691,851	9,232,952	<u>\$ 7,560,564</u>
(1,279,711)	(895,166)	-	(2,174,877)	-	-
<u>\$ 548,447</u>	<u>\$ 59,686</u>	<u>\$ 490,906</u>	<u>\$ 2,516,974</u>	<u>\$ 9,232,952</u>	
<u>\$ 587,425</u>	<u>\$ 57,035</u>	<u>\$ 427,397</u>	<u>\$ 2,266,197</u>	<u>\$ 7,560,564</u>	