

Financial Statements and Independent Auditors' Report

Hawaii Opera Theatre

May 31, 2017 and 2016

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Independent Auditors' Report

Board of Directors
Hawaii Opera Theatre

We have audited the accompanying financial statements of Hawaii Opera Theatre, which comprise the statements of financial position as of May 31, 2017 and 2016, 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.

Auditor's 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 auditor's 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 financial position of Hawaii Opera Theatre as of May 31, 2017 and 2016, 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.

Spire Hawaii LLP

Honolulu, Hawai'i
November 27, 2017

Hawaii Opera Theatre

STATEMENTS OF FINANCIAL POSITION

May 31,

ASSETS	2017	2016
Cash	\$ 31,356	\$ 239,234
Cash held by property manager	123,647	176,941
Contributions receivable	509,449	24,993
Accounts receivable	36,664	32,078
Prepaid expenses	63,882	27,343
Investments	7,081,162	7,608,622
Property and equipment, net	1,254,684	1,419,594
Total assets	\$ 9,100,844	\$ 9,528,805
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 380,356	\$ 446,905
Deferred revenue and support	429,870	505,564
Line of credit	1,100,000	1,000,000
Total liabilities	1,910,226	1,952,469
Net assets		
Unrestricted		
Invested in property and equipment	617,216	716,306
Other	(2,062,938)	(1,113,920)
Total unrestricted	(1,445,722)	(397,614)
Temporarily restricted		
Invested in property and equipment	176,468	235,288
Other	1,206,697	1,044,205
Total temporarily restricted	1,383,165	1,279,493
Permanently restricted	7,253,175	6,694,457
Total net assets	7,190,618	7,576,336
Total liabilities and net assets	\$ 9,100,844	\$ 9,528,805

The accompanying notes are an integral part of these statements.

Hawaii Opera Theatre

STATEMENT OF ACTIVITIES

For the year ended May 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Ticket sales	\$ 1,001,960	\$ -	\$ -	\$ 1,001,960
Education	37,028	-	-	37,028
Miscellaneous income	44,814	-	-	44,814
Total operating revenues	1,083,802	-	-	1,083,802
Operating expenses				
Program services				
Production				
Artistic	1,975,311	-	-	1,975,311
Physical	1,845,281	-	-	1,845,281
Education	249,333	-	-	249,333
Total program services	4,069,925	-	-	4,069,925
General and administrative	478,950	-	-	478,950
Marketing	153,761	-	-	153,761
Total operating expenses	4,702,636	-	-	4,702,636
Change in net assets from operating activities	(3,618,834)	-	-	(3,618,834)
Non-operating activities				
Contributions	1,229,856	75,000	558,718	1,863,574
Grants	180,817	-	-	180,817
Fundraising expenses	(536,383)	-	-	(536,383)
Special events income	618,248	-	-	618,248
Special events cost of direct benefits to donors	(106,646)	-	-	(106,646)
Rental income	918,170	-	-	918,170
Rental expenses	(567,205)	-	-	(567,205)
Interest and dividend income	49	-	-	49
Net realized and unrealized gain on investments	-	862,492	-	862,492
Net assets released from restrictions	833,820	(833,820)	-	-
Total non-operating activities	2,570,726	103,672	558,718	3,233,116
Total change in net assets	(1,048,108)	103,672	558,718	(385,718)
Net assets at beginning of year	(397,614)	1,279,493	6,694,457	7,576,336
Net assets at end of year	<u>\$ (1,445,722)</u>	<u>\$ 1,383,165</u>	<u>\$ 7,253,175</u>	<u>\$ 7,190,618</u>

The accompanying notes are an integral part of these statements.

Hawaii Opera Theatre

STATEMENT OF ACTIVITIES

For the year ended May 31, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Ticket sales	\$ 926,560	\$ -	\$ -	\$ 926,560
Education	55,456	-	-	55,456
Miscellaneous income	83,565	-	-	83,565
Total operating revenues	1,065,581	-	-	1,065,581
Operating expenses				
Program services				
Production				
Artistic	1,539,584	-	-	1,539,584
Physical	1,596,067	-	-	1,596,067
Education	257,797	-	-	257,797
Total program services	3,393,448	-	-	3,393,448
General and administrative	371,757	-	-	371,757
Marketing	71,323	-	-	71,323
Total operating expenses	3,836,528	-	-	3,836,528
Change in net assets from operating activities	(2,770,947)	-	-	(2,770,947)
Non-operating activities				
Contributions	1,499,668	75,000	-	1,574,668
Grants	10,522	-	-	10,522
Fundraising expenses	(565,254)	-	-	(565,254)
Special events income	641,274	-	-	641,274
Special events cost of direct benefits to donors	(111,389)	-	-	(111,389)
Rental income	926,091	-	-	926,091
Rental expenses	(542,684)	-	-	(542,684)
Interest and dividend income	127	-	-	127
Net realized and unrealized loss on investments	-	(300,976)	-	(300,976)
Net assets released from restrictions	479,192	(479,192)	-	-
Total non-operating activities	2,337,547	(705,168)	-	1,632,379
Total change in net assets	(433,400)	(705,168)	-	(1,138,568)
Net assets at beginning of year	35,786	1,984,661	6,694,457	8,714,904
Net assets at end of year	\$ (397,614)	\$ 1,279,493	\$ 6,694,457	\$ 7,576,336

The accompanying notes are an integral part of these statements.

Hawaii Opera Theatre

STATEMENTS OF CASH FLOWS

May 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (385,718)	\$ (1,138,568)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized and unrealized (gains) losses on investments	(862,492)	300,976
Depreciation expense	183,690	195,448
Changes in		
Cash held by property manager	53,294	(6,827)
Contributions receivable	(484,456)	(7,623)
Prepaid expenses	(36,539)	(1,108)
Accounts receivable	(4,586)	(14,759)
Accounts payable and accrued expenses	(66,549)	168,838
Deferred revenue and support	(75,694)	77,972
Net cash used in operating activities	<u>(1,679,050)</u>	<u>(425,651)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	2,094,587	1,504,948
Purchase of investment securities	(704,635)	(2,166,579)
Capital expenditures	(18,780)	(116,647)
Net cash provided by (used in) investing activities	<u>1,371,172</u>	<u>(778,278)</u>
Cash flows from financing activities		
Net borrowings under line of credit	<u>100,000</u>	<u>-</u>
Net cash provided by financing activities	100,000	-
Decrease in cash	(207,878)	(1,203,929)
Cash at beginning of year	<u>239,234</u>	<u>1,443,163</u>
Cash at end of year	<u>\$ 31,356</u>	<u>\$ 239,234</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 30,797</u>	<u>\$ 11,399</u>

The accompanying notes are an integral part of these statements.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hawaii Opera Theatre (hereinafter referred to as the “Theatre”) have been prepared on an accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements.

1. Organization’s Activities

The Theatre is a nonprofit organization incorporated on February 19, 1980. Its purpose is to be recognized as an outstanding regional opera company, one which consistently produces performances of the highest quality while maintaining a strong financial position. In order to support its programming, including performances of opera, educational programs for youth and adults throughout the Hawaiian Islands, and outreach programs, the Theatre solicits public and private contributions and sells performance tickets. Revenues, both earned and contributed, go towards supporting the Theatre’s various programs. Four opera productions were presented in 2017: La Boheme, A Streetcar Named Desire, Three Decembers and The Tales of Hoffmann, and three opera productions were presented in 2016: The Magic Flute, Midsummer Night’s Dream, and Il Trovatore.

2. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, the carrying value and useful lives of property and equipment, the valuation of donated assets, and the allocation of costs between functional expenses such as program, administrative, marketing, and fundraising. Actual results could differ from those estimates.

3. Risks and Uncertainties

The Theatre invests in or holds a variety of investment vehicles, including common and preferred stock, corporate notes and bonds, and fixed rate capital securities. These investments are exposed to interest rate, market, credit, and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Theatre’s investments, which could materially affect amounts reported in the financial statements.

The Theatre attempts to minimize market risk by diversifying its investments in common and preferred stock among various industry groups. Additionally, the Theatre attempts to minimize credit risk by limiting its investments in debt securities to high-quality corporate notes and bonds diversified among various industry groups.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Concentrations of Credit Risk

The Theatre places its cash with financial institutions in the State of Hawaii. The Federal Deposit Insurance Corporation (“FDIC”) provides for deposits at FDIC insured institutions to be insured up to \$250,000. Uninsured balances in excess of federally insured limits aggregate approximately \$0 and \$4,200 at May 31, 2017 and 2016, respectively.

5. Operating and Non-Operating Activities

The Theatre reflects certain activities not directly related to the operation of the Theatre as non-operating activities in the statements of activities. These activities include the Theatre’s fundraising activities (including grants and all contributions), rental activities, and the results of the Theatre’s investment portfolio.

6. Cash

Cash consists of checking and savings accounts with a financial institution. Cash, money market funds, and short-term debt instruments held in investment accounts are classified as investments.

7. Receivables

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Accounts receivable are stated at unpaid balances.

An allowance for doubtful accounts and pledges is established when needed based on management’s judgments about the collectability of receivables. Uncollectible receivables are charged off when management determines the receivable will not be collected. No such allowance was deemed necessary as of May 31, 2017 and 2016.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation. Equipment items having a useful life of greater than one year and a per unit cost in excess of \$500 are capitalized. Depreciation is provided over the estimated useful lives of the respective assets primarily on a straight-line basis, as follows:

Office furniture and equipment	5 – 7 years
Stage sets and props	5 – 10 years
Building and improvements	18 – 30 years

Maintenance, repairs, and minor replacements are charged to expense as incurred; major replacements and betterments are capitalized. Long-lived assets are periodically reviewed for impairment. No impairment losses were recorded in the fiscal years 2017 and 2016.

9. Investments

Investments in marketable securities are reported at fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note D for a discussion of fair value measurements. Purchases and sales are recorded on a trade-date basis. Interest is recorded on the accrual basis. Dividends are recorded on the ex-dividends dates.

10. Endowments

Interpretation of UPMIFA

The governing board of the Theatre, in consultation with legal counsel, has interpreted Hawaii's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 Theatre classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA, and upon satisfaction of any purpose restrictions on the fund.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Endowments (continued)

Endowment Investment Return Objectives

The Theatre's endowment investment return objectives are to seek consistency of investment return with primary emphasis on capital appreciation and secondary emphasis on income. In addition, the Theatre seeks to protect principal against erosion in buying power resulting from inflation. Under this policy, investments are invested in a manner that is intended to produce results that exceed the total return of the appropriate market index, as defined in the policy statement.

To satisfy its long-term rate-of-return objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and income (interest and dividends).

Endowment Spending Policy

The Theatre has a spending policy allowing for the appropriation of 5% of the rolling 12 quarters' average balance of the endowment, or such other amount as considered necessary by the board of directors. Net rental income earned from real estate endowment is expended currently in support of operations.

11. Contributed Property and Equipment

Contributed property and equipment is recorded at fair value at the date of donation, generally based on independent appraisals. In the absence of donor stipulations regarding how long the contributed assets must be used, the Theatre has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Classification of Net Assets

The three net asset categories reflected in the accompanying financial statements are as follows:

- Unrestricted: Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted: Net assets whose use by the Theatre is limited by donor imposed stipulations that either expire with the passage of time or can be fulfilled or otherwise removed by the actions of the Theatre.
- Permanently Restricted: Net assets whose use by the Theatre is limited by donor imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Theatre.

13. Revenue Recognition

Ticket sales are recognized as revenue once the related performance takes place. Contributions received are recognized as revenues when the donor's commitment is received. The Theatre reports contributions 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 statement of activities as net assets released from restrictions. Contributions for which restrictions are met in the same reporting period are reported as unrestricted support. In fiscal year 2017, four opera productions were presented and in fiscal year 2016 three opera productions were presented.

14. Functional Allocation of Expenses

The costs of providing the Theatre's various programs and other services 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.

Production program services are comprised of artistic and physical. Artistic includes expenses related to orchestra, singers, actors, and costumes. Physical includes expenses related to scenery and props, rentals and related depreciation, and technical labor.

Fundraising expenses, including the cost of special fundraising events, are incurred to persuade potential donors to make contributions to the Theatre. Such costs are expensed as incurred.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)

15. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs, including donated advertising costs, incurred in fiscal 2017 for four productions amounted to \$229,656, and advertising costs incurred in fiscal 2016 for three productions amounted to \$175,381.

16. In-Kind Contributions and Contributed Services

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Theatre recognizes the fair value of contributed services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The Theatre also receives services from a large number of volunteers who give significant amounts of their time to its programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition.

17. Tax Status

The Theatre has received a determination from the Internal Revenue Service that its stated purpose is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Theatre is not a private foundation under Section 509(a) of the Internal Revenue Code. Income tax returns for fiscal 2014-2016 are open to examination by the Internal Revenue Service. The Theatre is not aware of any uncertain tax positions taken on previously filed income tax returns.

18. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the previously reported results of the operations.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE B – CONTRIBUTIONS RECEIVABLE

Contributions receivable due in more than one year are recognized at fair value, using present value techniques and a discount rate of 3.04%, when the donor makes a promise to give to the Theatre. Contributions receivable consisted of the following at May 31,

	<u>2017</u>	<u>2016</u>
Gross contribution receivables	532,272	24,993
Unamortized discount on contribution receivables	(22,823)	-
Contribution receivables, net	<u>509,449</u>	<u>24,993</u>

Contributions receivable due in more than one year consisted of the following at May 31,

	<u>2017</u>	<u>2016</u>
Amounts due in less than 1 year	207,272	24,993
Amounts due in 1 - 5 years	325,000	-
	<u>532,272</u>	<u>24,993</u>

NOTE C – INVESTMENTS

The Theatre's investments at May 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 235,361	\$ 175,627
Common and preferred stock	654,170	717,165
Corporate notes and bonds	50,980	10,324
Convertible securities	642,977	1,747,132
Mututal funds	5,497,674	4,866,971
Fixed rate capital securities	-	91,403
	<u>\$ 7,081,162</u>	<u>\$ 7,608,622</u>

Investment management fees, which are included in net realized and unrealized losses/gains on investments, were \$41,427 and \$47,508 for the years ended May 31, 2017 and 2016, respectively.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE D – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority;
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the instrument;
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

The Theatre uses appropriate valuation techniques based on the available inputs to measure fair value. When available, the Theatre measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Fair values of assets measured on a recurring basis are as follows as of May 31, 2017 and 2016:

	Fair value	Level 1	Level 2
May 31, 2017			
Money market funds	\$ 235,361	\$ 235,361	\$ -
Mutual funds	5,497,674	5,497,674	-
Common stock	654,170	654,170	-
Corporate notes and bonds	50,980	50,980	-
Convertible corporate bonds	529,228	-	529,228
Convertible preferred stock	113,749	-	113,749
	<u>\$ 7,081,162</u>	<u>\$ 6,438,185</u>	<u>\$ 642,977</u>

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE D – FAIR VALUE MEASUREMENTS (continued)

	Fair value	Level 1	Level 2
May 31, 2016			
Money market funds	\$ 175,627	\$ 175,627	\$ -
Mutual funds	4,866,971	4,866,971	-
Common stock	703,417	703,417	-
Corporate notes and bonds	10,324	10,324	-
Convertible corporate bonds	1,335,641	-	1,335,641
Preferred stock	13,748	13,748	-
Convertible preferred stock	411,491	-	411,491
Fixed rate capital securities	91,403	91,403	-
	<u>\$ 7,608,622</u>	<u>\$ 5,861,490</u>	<u>\$ 1,747,132</u>

Investment securities are further diversified among industry sectors, primarily U.S. domestic large cap issuers.

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at May 31, 2017 or 2016.

Money market funds: Valued at cost, which approximates fair value (Level 1).

Mutual funds: Valued at net asset value (“NAV”) of shares held by the Theatre at year end (Level 1).

Common and preferred stock: Valued at the closing price reported on active stock exchanges (Level 1).

Corporate notes and bonds: Valued at the closing price reported on the active market which the individual securities are traded (Level 1).

Fixed rate capital securities: Valued at the closing price reported on the active market which the individual securities are traded (Level 1).

Convertible corporate bonds and convertible preferred stock: Valued primarily by pricing models that incorporate available trade, bid and other market information (Level 2).

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE E – PROPERTY AND EQUIPMENT

The Theatre’s property and equipment at May 31, 2017 and 2016 were comprised of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 2,792,165	\$ 2,787,412
Furniture and equipment	<u>382,344</u>	<u>361,317</u>
	3,174,509	3,148,729
Less: Accumulated depreciation	<u>2,380,825</u>	<u>2,197,135</u>
	793,684	951,594
Construction in progress	-	7,000
Land	<u>461,000</u>	<u>461,000</u>
	<u>\$ 1,254,684</u>	<u>\$ 1,419,594</u>

Depreciation expense for the Theatre was \$183,690 and \$195,448 for the years ended May 31, 2017 and 2016, respectively.

In May 2003, the Theatre received an assignment of the basic lease, due to expire on May 14, 2020, and all existing subleases of a retail and medical office building property (now known as the Hawaii Opera Plaza) to which it previously owned the leased fee interest. As a result of the contribution, the Theatre became the fee simple owner of the property, including improvements thereon. The contribution of this property was valued at \$1,000,000, based on an independent appraisal. Accumulated depreciation on this property was \$823,532 and \$764,712 as of May 31, 2017 and 2016, respectively.

NOTE F – LINE OF CREDIT

The Theatre has a \$3,000,000 portfolio credit facility with a financial institution. The credit facility is secured by the Theatre’s endowment assets on hand with the financial institution. The related debt outstanding under the credit facility was \$1,100,000 and \$1,000,000 at May 31, 2017 and 2016 respectively. The interest rate for the credit facility is Libor plus 2%, which was 3.04% and 2.47% at May 31, 2017 and 2016, respectively. Interest expense incurred during the years ended May 31, 2017 and 2016 was approximately \$31,000 and \$11,000, respectively.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE G – RENTAL INCOME

The Theatre leases its Hawaii Opera Plaza property to various tenants under operating lease agreements expiring on various dates through December 2029. Future minimum rentals for leases with remaining terms of one year or more are as follows:

Years ending May 31,	
2018	\$ 460,000
2019	422,000
2020	386,000
2021	258,000
2022	179,000
Thereafter	<u>519,000</u>
	<u>\$ 2,224,000</u>

This property is included in the Theatre's financial statements under the following captions:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,000,000	\$ 1,000,000
Less: Accumulated depreciation	<u>823,532</u>	<u>764,712</u>
	176,468	235,288
Land	<u>461,000</u>	<u>461,000</u>
	<u>\$ 637,468</u>	<u>\$ 696,288</u>

Rental income for the years ended May 31, 2017 and 2016 was \$918,170 and \$926,091, respectively. Rental expenses were \$567,205 and \$542,684 for the respective fiscal years.

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE H – IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES

In-kind contributions and contributed services have been reflected in both contributions and the appropriate expense categories and amounted to \$198,583 and \$178,532 for the years ended May 31, 2017 and 2016, respectively.

The nature of in-kind contributions and contributed services, as well as the expense categories benefited, was as follows:

	<u>2017</u>	<u>2016</u>
Housing for guest artists (production artistic)	\$ 73,001	\$ 64,700
Advertising and marketing services (marketing and fundraising)	98,520	81,080
Production (production physical)	17,062	27,752
Other (various)	<u>10,000</u>	<u>5,000</u>
	<u>\$ 198,583</u>	<u>\$ 178,532</u>

NOTE I – LEASES

The Theatre leases several photocopy machines under operating leases expiring through 2019. In August 2015, the Theatre entered into lease for a rehearsal space. The lease term is through June 30, 2019 with two options to extend for additional five-year terms at fair market rents during those periods. Rental expense recognized during the years ended May 31, 2017 and 2016 was \$79,442 and \$92,229, respectively.

Future minimum lease payments under the above non-cancellable operating leases amounted to:

Years ending May 31,	<u>Rehearsal Space</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 36,000	\$ 10,000	\$ 46,000
2019	36,000	3,000	39,000
2020	<u>3,000</u>	<u>-</u>	<u>3,000</u>
	<u>\$ 75,000</u>	<u>\$ 13,000</u>	<u>\$ 88,000</u>

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE J – NET ASSETS

At May 31, 2017, the Theatre's endowment and other net assets consisted of the following:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted endowments				
Support of opera studio	\$ -	\$ 623,092	\$ 783,000	\$ 1,406,092
Support of general activities	-	583,605	6,470,175	7,053,780
Total donor restricted endowments	<u>-</u>	<u>1,206,697</u>	<u>7,253,175</u>	<u>8,459,872</u>
Non-endowments				
Time restricted - property	-	176,468	-	176,468
Time restricted - other	-	-	-	-
Operating net assets - property	617,216	-	-	617,216
Operating net assets - other	<u>(2,062,938)</u>	<u>-</u>	<u>-</u>	<u>(2,062,938)</u>
Total non-endowments	<u>(1,445,722)</u>	<u>176,468</u>	<u>-</u>	<u>(1,269,254)</u>
Total net position	<u>\$ (1,445,722)</u>	<u>\$ 1,383,165</u>	<u>\$ 7,253,175</u>	<u>\$ 7,190,618</u>

At May 31, 2016, the Theatre's endowment and other net assets consisted of the following:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted endowments				
Support of opera studio	\$ -	\$ 561,655	\$ 783,000	\$ 1,344,655
Support of general activities	-	477,658	5,911,457	6,389,115
Total donor restricted endowments	<u>-</u>	<u>1,039,313</u>	<u>6,694,457</u>	<u>7,733,770</u>
Non-endowments				
Time restricted - property	-	235,288	-	235,288
Time restricted - other	-	-	-	-
Operating net assets - property	716,306	-	-	716,306
Operating net assets - other	<u>(1,109,028)</u>	<u>-</u>	<u>-</u>	<u>(1,109,028)</u>
Total non-endowments	<u>(392,722)</u>	<u>235,288</u>	<u>-</u>	<u>(157,434)</u>
Total net position	<u>\$ (392,722)</u>	<u>\$ 1,274,601</u>	<u>\$ 6,694,457</u>	<u>\$ 7,576,336</u>

Hawaii Opera Theatre

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2017 and 2016

NOTE J – NET ASSETS (continued)

Changes in endowment net assets for the two years ended May 31, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, June 1, 2015	\$ -	\$ 1,690,549	\$ 6,694,457	\$ 8,385,006
Net realized/unrealized gain, net of investment expense	-	(305,868)	-	(305,868)
Contributions - opera studio	-	75,000	-	75,000
Amounts appropriated for expenditure	-	(420,368)	-	(420,368)
Endowment funds, May 31, 2016	-	1,039,313	6,694,457	7,733,770
Net realized/unrealized loss, net of investment expense	-	867,384	-	867,384
Contributions - opera studio	-	75,000	-	75,000
Contributions - permanent endowment	-	-	558,718	558,718
Amounts appropriated for expenditure	-	(775,000)	-	(775,000)
Endowment funds, May 31, 2017	<u>\$ -</u>	<u>\$ 1,206,697</u>	<u>\$ 7,253,175</u>	<u>\$ 8,459,872</u>

During the years ended May 31, 2017 and 2016, net assets of \$833,820 and \$479,192, respectively, were released from temporarily restricted net assets as a result of the incurrence of certain program and theatrical costs by the Theatre, or from the expiration of time restrictions associated with donor gifts and the Hawaii Opera Plaza property.

NOTE K – SUBSEQUENT EVENTS

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was November 27, 2017, the date the financial statements were available to be issued.