

**HAWAII OPERA THEATRE
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
As of and for the Year Ended May 31, 2025
With Prior Year Comparative Information**





INDEPENDENT AUDITOR'S REPORT

Hawaii Opera Theatre and Affiliate:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Hawaii Opera Theatre (HOT), a nonprofit Hawaii corporation, and its affiliate (collectively, referred to as the Theatre), which comprise the consolidated statement of financial position as of May 31, 2025, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Theatre as of May 31, 2025, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Theatre and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Theatre's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Prior Year Summarized Comparative Information

We have previously audited the Theatre's May 31, 2024 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 19, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2024 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CW Associates, CPAs

CW Associates, CPAs
Honolulu, Hawaii
May 20, 2026



HAWAII OPERA THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of May 31, 2025
(With Prior Year Comparative Information)

	<u>2025</u>	<u>2024</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,372,767	\$ 328,642
Cash held by property manager	299,623	352,186
Accounts receivable – net	67,337	167,170
Pledges receivable – net	373,918	89,761
Prepaid expenses and other assets	<u>191,189</u>	<u>135,483</u>
Total current assets	2,304,834	1,073,242
INVESTMENTS IN MARKETABLE SECURITIES	7,266,582	6,947,240
PROPERTY AND EQUIPMENT – Net	913,967	871,941
OPERATING RIGHT-OF-USE LEASE ASSET – Net	103,787	163,803
DUE FROM WITHOUT DONOR RESTRICTIONS FUND	<u>1,846,453</u>	<u>1,846,280</u>
TOTAL ASSETS	<u>\$ 12,435,623</u>	<u>\$ 10,902,506</u>

(Continued)

HAWAII OPERA THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As of May 31, 2025
(With Prior Year Comparative Information)

	<u>2025</u>	<u>2024</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 230,189	\$ 205,772
Deferred revenue	45,560	25,630
HOP LLC note payable – current	84,200	82,000
Operating lease liability – current	63,489	60,423
Total current liabilities	<u>423,438</u>	<u>373,825</u>
HOP LLC NOTE PAYABLE – Noncurrent	3,102,874	3,186,054
OPERATING LEASE LIABILITY – Noncurrent	43,915	107,404
DUE TO WITH DONOR RESTRICTIONS FUND	<u>1,846,453</u>	<u>1,846,280</u>
TOTAL LIABILITIES	<u>5,416,680</u>	<u>5,513,563</u>
NET ASSETS		
Net deficit without donor restrictions	<u>(2,968,882)</u>	<u>(3,809,540)</u>
Net assets with donor restrictions		
Donor restricted for time and programs	2,855,577	2,066,235
Donor restricted for endowment funds	7,132,248	7,132,248
Total net assets with donor restrictions	<u>9,987,825</u>	<u>9,198,483</u>
Total net assets	<u>7,018,943</u>	<u>5,388,943</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,435,623</u>	<u>\$ 10,902,506</u>

See accompanying notes to the consolidated financial statements.

HAWAII OPERA THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

	<u>2025</u>	<u>2024</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Contributions without donor restrictions	\$ 2,918,483	\$ 1,128,331
Special events – net	483,555	404,795
Lease rental income	463,413	687,791
Net assets released from donor restrictions	315,838	297,205
Ticket sales	290,779	301,087
In-kind contributions	160,543	22,419
Grants	33,000	310,672
Education	22,795	22,384
Realized and unrealized gain on investments without donor restrictions	15,116	30,290
Other income	<u>34,904</u>	<u>2,083</u>
Total revenue and support	<u>4,738,426</u>	<u>3,207,057</u>
Expenses		
Program services	2,485,298	2,677,325
Support services	<u>1,412,470</u>	<u>1,261,787</u>
Total expenses	<u>3,897,768</u>	<u>3,939,112</u>
Increase (decrease) in net assets without donor restrictions	<u>840,658</u>	<u>(732,055)</u>
 CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Investment income with donor restrictions – net	635,180	762,726
Contributions with donor restrictions	470,000	20,000
Recovery of pledges receivable with donor restrictions	-	7,749
Net assets released from donor restrictions	<u>(315,838)</u>	<u>(297,205)</u>
Increase in net assets with donor restrictions	<u>789,342</u>	<u>493,270</u>
 INCREASE (DECREASE) IN NET ASSETS	 1,630,000	 (238,785)
 NET ASSETS – Beginning of year	 <u>5,388,943</u>	 <u>5,627,728</u>
 NET ASSETS – End of year	 <u>\$ 7,018,943</u>	 <u>\$ 5,388,943</u>

See accompanying notes to the consolidated financial statements.

HAWAII OPERA THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

	Program Services			Support Services				2025 Total	2024 Total
	Opera Performances	Education	Total Program Services	Management and General	Rental Operations	Fund- Raising	Total Support Services		
Salaries and related benefits	\$ 772,744	\$ 251,265	\$ 1,024,009	\$ 177,813	\$ 30,191	\$ 301,691	\$ 509,695	\$ 1,533,704	\$ 1,584,374
Production	514,143	72,427	586,570	1,234	-	484	1,718	588,288	777,645
Occupancy	339,468	77,075	416,543	9,530	-	60,120	69,650	486,193	466,413
Hawaii Opera Plaza	-	-	-	-	281,457	-	281,457	281,457	329,939
Professional fees	61,053	10,354	71,407	128,019	-	65,775	193,794	265,201	165,883
Direct cost of special events	-	-	-	-	-	206,604	206,604	206,604	202,904
Marketing	136,541	4,797	141,338	14,471	-	47,323	61,794	203,132	123,052
Interest	93,702	12,314	106,016	20,132	11,772	14,370	46,274	152,290	154,759
Fundraising	646	-	646	390	-	79,008	79,398	80,044	67,598
Depreciation	9,629	5,771	15,400	782	41,170	4,490	46,442	61,842	71,551
Travel	17,052	26,094	43,146	6,569	-	10,508	17,077	60,223	36,960
Office and administrative	12,085	2,983	15,068	22,789	-	18,542	41,331	56,399	45,249
Miscellaneous	19,954	1,683	21,637	10,170	-	17,500	27,670	49,307	52,547
Insurance	11,260	6,971	18,231	4,987	-	7,949	12,936	31,167	30,607
Telephone	5,231	2,616	7,847	1,744	-	7,847	9,591	17,438	14,437
Postage	6,276	1,791	8,067	1,899	-	6,590	8,489	16,556	8,704
Repairs and maintenance	6,561	2,812	9,373	3,280	-	1,874	5,154	14,527	9,394
Total expenses	2,006,345	478,953	2,485,298	403,809	364,590	850,675	1,619,074	4,104,372	4,142,016
Direct cost of special events net with special events revenue	-	-	-	-	-	(206,604)	(206,604)	(206,604)	(202,904)
Total expenses on the consolidated statement of activities	<u>\$ 2,006,345</u>	<u>\$ 478,953</u>	<u>\$ 2,485,298</u>	<u>\$ 403,809</u>	<u>\$ 364,590</u>	<u>\$ 644,071</u>	<u>\$ 1,412,470</u>	<u>\$ 3,897,768</u>	<u>\$ 3,939,112</u>

See accompanying notes to the consolidated financial statements.

HAWAII OPERA THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,630,000	\$ (238,785)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Realized and unrealized gain from investments	(515,826)	(651,634)
Depreciation	61,842	71,551
Operating lease payments less straight-line expenses	(407)	1,219
(Increase) decrease in		
Accounts receivable – net	99,833	48,548
Pledges receivable – net	(284,157)	(71,962)
Prepaid expenses and other assets	(55,706)	(6,219)
Increase (decrease) in		
Accounts payable and accrued liabilities	24,417	(25,663)
Deferred revenue	<u>19,930</u>	<u>(42,035)</u>
Net cash provided (used) by operating activities	<u>979,926</u>	<u>(914,980)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of marketable securities	2,744,760	427,548
Purchases of marketable securities	(2,548,276)	(201,595)
Purchases of property and equipment	<u>(103,868)</u>	<u>-</u>
Net cash provided by investing activities	<u>92,616</u>	<u>225,953</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of HOP LLC note payable	<u>(80,980)</u>	<u>(78,511)</u>
Net cash used by financing activities	<u>(80,980)</u>	<u>(78,511)</u>

(Continued)

HAWAII OPERATE THEATRE AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

	<u>2025</u>	<u>2024</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND CASH HELD BY PROPERTY MANAGER	\$ 991,562	\$ (767,538)
CASH AND CASH EQUIVALENTS AND CASH HELD BY PROPERTY MANAGER – Beginning of year	<u>680,828</u>	<u>1,448,366</u>
CASH AND CASH EQUIVALENTS AND CASH HELD BY PROPERTY MANAGER – End of year	<u>\$ 1,672,390</u>	<u>\$ 680,828</u>
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 88,062	\$ 90,531

See accompanying notes to the consolidated financial statements.

HAWAII OPERA THEATRE AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Opera Theatre (HOT) is a nonprofit Hawaii corporation that was incorporated on February 19, 1980. HOT's mission is to enrich the quality of life in our island communities through the inspirational power and joy of opera. HOT is recognized as an outstanding regional opera company, one which consistently produces artistic and educational programming of the highest quality. HOT solicits contributions from public and private sources and sells performance tickets to support its diverse and engaging activities, including performances, educational programs for youth and adults throughout the Hawaiian Islands, and outreach programs.

In September 2021, Hawaii Opera Plaza LLC (HOP) was formed as a single member limited liability company, with the Theatre as the sole member. HOT transferred, at book value, all of the assets and liabilities of Hawaii Opera Plaza (Plaza), including the building and the land under the building to HOP. All assets and liabilities reported by the Plaza's property manager were also transferred to HOP.

The accompanying consolidated financial statements include the accounts of HOT and HOP, except that significant intercompany transactions and balances have been eliminated in consolidation. HOT and HOP are collectively referred to as the Theatre.

Opera Performances

HOT's 2024-2025 Season included two mainstage productions, one of which was presented at the Blaisdell Arena and the other at HOT's longtime venue, the newly renovated Blaisdell Concert Hall.

Productions: Based on the true story of an undocumented immigrant who survived 81 hours (about 3 and a half days) in a Bronx elevator, "Stuck Elevator", tells the story of a Chinese food deliveryman struggling for freedom from debt, human smugglers, loud-mouth coworkers, and the temptations of General Tso (October 2024) at the Blaisdell Arena; and "Carmen," Bizet's smoldering tale of seduction and addiction, filled with some of opera's most beloved melodies (April 2025) at the Blaisdell Concert Hall. Both productions featured the Hawaii Symphony Orchestra and professional cast and creative teams.

For the third full season in HOT's intimate STUDIO101 space, HOT presented eleven eclectic programs (up from six the prior season) that blended opera, art song, vocal jazz, and traditional Hawaiian music, focusing on local talent in one-hour performances in a cabaret-like setting.

Education Programs

HOT's Education Department reached over 15,000 students, teachers, and parents across the State of Hawai'i. Programming included HOT's Opera Express touring show, a family-friendly adaptation of Mozart's "The Magic Flute" visiting schools, libraries and other venues on Oahu, Hawai'i Island, and Kauai.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization and Activity (continued)

Education Programs (continued)

HOT's residency program went to five schools, four of which are classified as Title 1, to create original operas written by students; all residencies culminated in performances for the entire school body and a performance for families and the community.

Opera Opera for Everyone, a program that invited students and teachers to the final dress rehearsal of each mainstage production, complete with orchestra, sets, and costumes, served over 1,200 students.

In a collaboration with the Hawaii Youth Opera Chorus (HYOC), HOT's education team assisted in the production of an original opera for performance by children titled "Scales," based on the Hawaiian story of dragons on Maui. This production was the culmination of OPERAtunities, a summer program created by HYOC with HOT to teach opera skills to a new generation of performers.

HOT's Orvis Opera Studio and Orvis Young Voices Studio programs provided free, year-round workshops and master classes with local and visiting artists to adult and high-school-level singers wanting to expand their skills in presentation, diction, stage combat, and vocal technique. Both programs provide access to mainstage experiences in the HOT Chorus as well as minor solo opportunities, in addition to recitals and other performing opportunities throughout the year.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Theatre to report information regarding its consolidated financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Theatre. These net assets may be used at the discretion of the Theatre's management and board of directors.

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Theatre or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The accompanying consolidated financial statements include prior year comparative information that does not constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Theatre's consolidated financial statements as of and for the year ended May 31, 2024, from which the information was derived.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the consolidated financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Theatre to credit risk include cash and cash equivalents, accounts and pledges receivable, and investments in marketable securities. Cash on deposit with financial institutions was approximately \$1,318,600 and \$101,100 in excess of federally insured limits at May 31, 2025 and 2024, respectively. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded. Accounts and pledges receivable have been reduced by estimated allowances for credit losses and doubtful accounts (none at May 31, 2025 and 2024). Such receivables are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of current and future economic conditions, and a review of subsequent collections. Investments in marketable securities are insured by federal and private insurance, as represented by the custodian. Future changes in market prices may make such investments less valuable.

Cash and Cash Equivalents and Cash Held by Property Manager

Highly liquid investments purchased with a maturity date of three months or less are considered to be cash equivalents, except for certain money market funds that are included in investments in marketable securities.

Cash held by property manager represents cash on deposit with the HOP's property manager for the management of the Plaza.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Net realized and unrealized gains and losses, determined using the average cost method, are included in investment gain. Investment gain with donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met either by passage of time or by use in the reporting period in which the gain is recognized.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the shorter of the estimated useful life of 17 years or the lease term for buildings and improvements, and three to 10 years for furniture and equipment. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their related carrying amounts may not be fully recoverable. Major improvements are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

Leases

Leases are evaluated as operating or finance upon commencement, and are accounted for accordingly. Specifically, a lease contains an explicitly or implicitly identified asset, the Theatre retains substantially all of the economic benefits from the use of the underlying asset, and directs how and for what purpose the asset is used during the term of the lease in exchange for consideration. The Theatre assesses whether a contract is or contains a lease at inception of the contract. See Note I for a summary of leases.

The right-of-use asset and operating lease liability are based on the present value of future lease payments. The lease term used to calculate operating right-of-use asset and operating lease liability at the commencement of a lease includes the impacts of options to extend or terminate the lease. Existing economic conditions; the nature, length, and terms of the lease agreement; and the expected condition of the leased asset at the end of the lease term are factors in assessing the probability of an option to extend or terminate a lease.

The discount rate used to calculate the present value of lease payments is the rate implicit in the lease, when readily determinable; a secured incremental borrowing rate, when the rate implicit in the lease is not readily determinable; or a risk-free interest rate, when a secured incremental borrowing rate is not available.

Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased assets are generally obligations of the Theatre. When such payments are fixed, they are included in the measurement of the lease liability and, when variable, are excluded and recognized in the period in which the obligation for those payments is incurred.

Leases that have a term of 12 months or less upon commencement are considered short-term in nature. Such leases are not included in the consolidated statement of financial position and are expensed on a straight-line basis over the lease term. The Theatre's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2025 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expense Recognition

Revenue is recognized when the goods or services are provided to the customer. Revenue from performance obligations satisfied at a point in time include ticket sales of \$290,779 and \$301,087 and special events of \$455,304 and \$488,347 for the years ended May 31, 2025 and 2024, respectively. Revenue from performance obligations satisfied over time include education revenue of \$22,795 and \$22,384 and other income of \$34,904 and \$2,083 for the years ended May 31, 2025 and 2024, respectively. Lease rental income is recognized over the lease term on a straight-line basis. All other revenue was derived from sources recognized under other accounting standards. The Theatre records special events revenue equal to the fair value of direct benefits received by donors when the event takes place, and contribution income for the excess when received unless the funds are to be returned if the event does not take place. Amounts received prior to the provision of the goods and services are reported as deferred revenue.

Expenses, including advertising, are recorded when the related liability is incurred. Advertising expenses (recorded in marketing) totaled \$137,086 and \$78,544 for the years ended May 31, 2025 and 2024, respectively. The Theatre allocates its expenses on a functional basis among its various programs and supporting services. Program services are comprised of opera performances and education programs. Opera performances include expenses related to orchestra, singers, actors, costumes, scenery and props, rentals and related depreciation, and technical labor. Education includes expenses related to teachers, singers, pianists, scenery, costumes, and related depreciation. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions are allocated based on management's estimates of personnel time and efforts.

Grants

The Theatre's revenue from grants is based on agreements with government agencies and other entities such as private foundations. The Theatre recognizes grants as either contributions or exchange transactions, depending on whether the transaction is reciprocal or nonreciprocal. The Theatre has cost-reimbursable grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures (including expenditures for property and equipment, which are capitalized and depreciated for financial accounting purposes). Amounts received are recognized as revenue when the Theatre has met the conditions, including incurring expenditures in compliance with the grant provisions. Amounts received prior to incurring the qualifying expenses are reported as refundable advances (none in 2025 and 2024). Qualifying expenditures that have been incurred for services performed, but for which reimbursement has not yet been received, are reported in the consolidated statement of financial position as grants receivable. Grants receivable (included in accounts receivable) was \$13,918 and \$110,162 at May 31, 2025 and 2024, respectively.

Grants and contracts classified as exchange transactions are recorded as revenue without donor restrictions when the goods and services are provided as stipulated in the grant and contract agreement and the performance obligations have been met (none in 2025 and 2024).

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2025 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Theatre recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase in net assets with donor restrictions. When a donor restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

In-Kind Contributions

In-kind donations of goods and services that meet the criteria for recognition are recognized as contributions at their estimated fair market value at the date of donation, and are recorded as expenses, including marketing, fundraising, travel and professional fees, or assets in the same amount. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Theatre.

For the year ended May 31, 2025, the Theatre's in-kind contributions consisted of donated advertising, event spaces, catering, lodging and professional services. For the year ended May 31, 2024, the Theatre's in-kind contributions consisted entirely of donated professional services. The fair value of the in-kind services was based on the amount the individual would have charged for such services. A number of unpaid volunteers have also made contributions of their time to the Theatre. The value of this time is not reflected in these consolidated financial statements because it does not meet the criteria for recognition.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Theatre from lease rental income, special events, and sales of retail merchandise within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax included in both revenue and expenses amounted to \$38,087 and \$49,307 for the years ended May 31, 2025 and 2024, respectively.

Income Taxes

HOT is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to HOT are tax deductible. HOP was organized as a limited liability company. The income or loss of HOP is recognized by HOT, its sole member for income tax purposes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (continued)

U.S. GAAP requires uncertain tax positions to be recognized in the consolidated financial statements if they are more likely than not to fail upon regulatory examination. Management evaluated HOT's and HOP's tax positions as of May 31, 2025 and 2024 and for the years then ended, and determined that HOT and HOP had no uncertain tax positions required to be reported in accordance with U.S. GAAP. HOT and HOP are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE B – LIQUIDITY

The Theatre monitors the liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment returns on its available funds. The Theatre has various sources of liquidity available for its use including cash and cash equivalents, receivables, and investments in marketable securities. Receivables have an implied time restriction, but are expected to be collected within one year.

At May 31, 2025 and 2024, the Theatre's financial assets and the amounts of those assets that are readily available within one year of the consolidated statement of financial position date to meet general expenditures are as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 1,372,767	\$ 328,642
Accounts receivable – net	67,337	167,170
Pledges receivable – net	373,918	89,761
Investments in marketable securities	<u>7,266,582</u>	<u>6,947,240</u>
Total financial assets	9,080,604	7,532,813
Interfund borrowing from net assets with donor restrictions	1,846,453	1,846,280
Net assets with donor restrictions for time and programs	(2,855,577)	(2,066,235)
Net assets with donor restrictions for endowment funds	<u>(7,132,248)</u>	<u>(7,132,248)</u>
Financial assets available to meet cash needs		
for general expenditures within one year	<u>\$ 939,232</u>	<u>\$ 180,610</u>

As of May 31, 2025, HOT had sufficient current assets to meet its current liabilities. HOT also had an increase in net assets and cashflows in 2025 due to significant contributions received. While HOT has investments in marketable securities, those investments must be used to fulfill donor restrictions as to time and programs and for the endowments. As noted above, HOT would not have sufficient financial assets after providing for net asset with donor restrictions without the funds borrowed from restricted net assets. Management continues to focus on increasing program attendance and obtaining contributions from its donors, to fund its programs and operations.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE C – CASH AND CASH EQUIVALENTS, AND CASH HELD BY PROPERTY MANAGER

The following provides a reconciliation of cash and cash equivalents, and cash held by property manager reported within the consolidated statement of financial position that sum to the total of the same such amounts shown in the consolidated statement of cash flows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 1,372,767	\$ 328,642
Cash held by property manager	<u>299,623</u>	<u>352,186</u>
Total cash, cash equivalents, and cash held by property manager	<u>\$ 1,672,390</u>	<u>\$ 680,828</u>

NOTE D – INVESTMENTS IN MARKETABLE SECURITIES

At May 31, 2025 and 2024, investments in marketable securities consisted of the following:

	<u>2025</u>	<u>2024</u>
Mutual funds	\$ 7,241,343	\$ 6,927,261
Money market funds	<u>25,239</u>	<u>19,979</u>
Total investments in marketable securities	<u>\$ 7,266,582</u>	<u>\$ 6,947,240</u>

Investment income for the years ended May 31, 2025 and 2024 consisted of the following:

	<u>2025</u>	<u>2024</u>
Realized and unrealized gains	\$ 515,826	\$ 651,634
Dividends and interest	157,951	169,945
Investment fees	<u>(23,481)</u>	<u>(28,563)</u>
Investment income – net	<u>\$ 650,296</u>	<u>\$ 793,016</u>

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE E – FAIR VALUE MEASUREMENTS

U.S. GAAP provides a fair value hierarchy that prioritizes the inputs to the valuation methodology used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At May 31, 2025 and 2024, the fair value measurements reportable by the Theatre (see Note D) consisted of investments in mutual funds valued at quoted market prices and investments in money market funds valued at stated value, for which Level 1 valuation inputs were required. There were no investments for which Level 2 and Level 3 valuation inputs were required. 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.

The following sets forth by level, within the fair value hierarchy, the Theatre’s investments in marketable securities at fair value as of May 31, 2025:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 4,353,249	\$ -	\$ -	\$ 4,353,249
Fixed income funds	2,537,279	-	-	2,537,279
Alternative funds	<u>350,815</u>	<u>-</u>	<u>-</u>	<u>350,815</u>
Total mutual funds	7,241,343	-	-	7,241,343
Money market funds	<u>25,239</u>	<u>-</u>	<u>-</u>	<u>25,239</u>
Total investments at fair value	<u>\$ 7,266,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,266,582</u>

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Theatre’s investments in marketable securities at fair value as of May 31, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 4,441,369	\$ -	\$ -	\$ 4,441,369
Fixed income funds	2,179,829	-	-	2,179,829
Alternative funds	<u>306,063</u>	<u>-</u>	<u>-</u>	<u>306,063</u>
Total mutual funds	6,927,261	-	-	6,927,261
Money market funds	<u>19,979</u>	<u>-</u>	<u>-</u>	<u>19,979</u>
Total investments at fair value	<u>\$ 6,947,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,947,240</u>

NOTE F – PROPERTY AND EQUIPMENT

At May 31, 2025 and 2024, property and equipment consisted of the following:

	<u>2025</u>	<u>2024</u>
Land	\$ 461,000	\$ 461,000
Buildings and improvements	1,876,866	1,780,698
Furniture and equipment	230,585	230,585
Construction in progress	<u>7,657</u>	<u>-</u>
Total	2,576,108	2,472,283
Accumulated depreciation	<u>(1,662,141)</u>	<u>(1,600,342)</u>
Property and equipment – net	<u>\$ 913,967</u>	<u>\$ 871,941</u>

NOTE G – HOP NOTE PAYABLE

In November 2021, HOP was approved for a \$3,500,000 loan with a bank, including interest at 2.7% to be repaid over 30 years, and collateralized by HOP’s assets and revenue. HOP transferred the loan proceeds to HOT so HOT could repay its \$2,130,000 portfolio debt, to pay HOT \$461,000 for the book value of the land under the Plaza that was transferred to HOP, and to provide \$909,000 of working capital to HOT. At May 31, 2025 and 2024, the HOP note payable balance outstanding was \$3,187,074 and \$3,268,054, respectively. Interest expense incurred on the HOP’s loan during the years ended May 31, 2025 and 2024 was approximately \$88,100 and \$90,500, respectively. The loan requires HOP to provide certain financial reports to the bank and meet certain financial ratios, including a minimum debt service coverage ratio. HOP also may not, among other activities, engage in a business substantially different from its current business; incur additional debt; or sell, transfer, mortgage, assign, pledge, or encumber any of HOP’s assets, without the consent of the bank.

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

NOTE G – HOP NOTE PAYABLE (Continued)

At May 31, 2025, scheduled maturities of the note payable approximated the following:

Years Ending May 31st	
2026	\$ 84,200
2027	86,500
2028	88,900
2029	91,300
2030	93,800
Thereafter	<u>2,742,374</u>
Total note payable	<u>\$ 3,187,074</u>

NOTE H – INTERFUND BORROWING FROM DONOR RESTRICTED FUND

During the year ended May 31, 2019, the Board of Directors approved the borrowing of \$2,550,000 from HOT's endowment funds to retire HOT's advances on a line of credit. HOT withdrew \$1,803,083 from its endowment funds in August 2018, and an additional \$746,917 in September 2018 for a total borrowing of \$2,550,000. In February 2019, HOT paid back \$752,330 to the endowment fund. The interest rate is 3.5%, compounded annually. HOT uses the amounts appropriated for expenditures from its endowment funds to pay the annual interest on the borrowing. All principal and accrued interest is due and payable in August 2027. HOT established a due to/from transaction to recognize the amount due to the endowment funds. At May 31, 2025 and 2024, the outstanding balance of \$1,846,453 and \$1,846,280, respectively, includes accrued interest of \$48,783 and \$48,610, respectively.

NOTE I – LEASES

As Lessor

The Theatre leases space in the Plaza to others under operating leases expiring at various dates through December 2029. Lease rental income for the years ended May 31, 2025 and 2024 amounted to \$463,413 and \$687,791, respectively.

At May 31, 2025, future minimum lease receipts by years ending May 31st were as follows:

Years Ending May 31st	
2026	\$ 158,400
2027	\$ 134,700
2028	\$ 71,800
2029	\$ 56,800
2030	\$ 17,800

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE I – LEASES (Continued)

As Lessee

The Theatre leases space and storage from others under operating lease agreements expiring at various dates through January 2027. Lease rent expense (included in occupancy) for the years ended May 31, 2025 and 2024 amounted to \$281,457 and \$329,939, respectively, including common area maintenance and taxes.

The lease cost components, by lease type, for the years ended May 31, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Operating lease cost	\$ 63,664	\$ 63,664
Short-term lease expense	5,905	4,620
Variable lease cost	<u>211,888</u>	<u>261,655</u>
 Total lease cost	 <u>\$ 281,457</u>	 <u>\$ 329,939</u>

Short-term lease costs represent the Theatre’s costs with respect to leases with a duration of 12 months or less and are not reflected on the Theatre's consolidated statement of financial position. Variable lease costs are comprised of costs, such as the Theatre’s proportionate share of utilities, common area maintenance, and taxes that are not included in the operating lease right-of-use assets or operating lease liabilities and are recognized in the period in which they are incurred.

For the years ended May 31, 2025 and 2024, supplemental consolidated financial position and cash flow information related to the operating leases as of and for the years ended May 31, 2025 and 2024 consisted of the following:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ 64,071	\$ 62,445
Weighted-average remaining term for operating lease	1.67 years	2.67 years
Discount rate for operating lease based on incremental borrowing rate	2.70%	2.70%

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE I – LEASES (Continued)

As Lessee (continued)

The following table reconciles the undiscounted cash flows for the operating lease liabilities on the consolidated statement of financial position as of May 31, 2025:

Years Ending May 31st	
2026	\$ 65,463
2027	<u>44,261</u>
Total future minimum lease payments	109,724
Amount representing interests in future payments	<u>(2,320)</u>
Present value of future minimum lease payments	107,404
Operating lease liability – current	<u>(63,489)</u>
Operating lease liability – noncurrent	<u>\$ 43,915</u>

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS FOR TIME AND PROGRAMS

At May 31, 2025 and 2024, net assets with donor restrictions for time and programs consisted of the following:

	<u>2025</u>	<u>2024</u>
Donor restricted endowment income	\$ 1,676,114	\$ 1,340,914
Orvis Foundation Opera Studio	792,963	725,321
Capital campaign	<u>386,500</u>	<u>-</u>
Total net assets with donor restrictions for time and programs	<u>\$ 2,855,577</u>	<u>\$ 2,066,235</u>

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS FOR ENDOWMENTS

At May 31, 2025 and 2024, net assets with donor restrictions for endowments consisted of the following:

	<u>2025</u>	<u>2024</u>
Support of general activities	\$ 6,349,248	\$ 6,349,248
Orvis Foundation Opera Studio	<u>783,000</u>	<u>783,000</u>
Total net assets with donor restrictions for endowment funds	<u>\$ 7,132,248</u>	<u>\$ 7,132,248</u>

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2025
(With Prior Year Comparative Information)**

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS FOR ENDOWMENTS (Continued)

HOT is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) adopted by the State of Hawaii in July 2009. The Board of Directors of HOT has interpreted the Act as requiring the preservation of the original gift of donor-restricted endowment funds as net assets with donor restrictions for endowment funds, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as net assets with donor restrictions for programs. Net assets with donor restrictions for endowment funds are invested in accordance with policies established by the Board of Directors of HOT.

The asset allocation strategy is reviewed periodically and any changes require the approval of the Board of Directors of HOT. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires HOT to retain as a fund of perpetual duration. Deficiencies of this nature are included in net assets with donor restrictions. At May 31, 2025 and 2024, the fair value of investments in marketable securities and the amount due from without donor restrictions fund exceeded the net assets restricted for endowment funds.

HOT’s investment policies for its endowment funds aim to meet or exceed an annual average total return over a ten-year rolling investment period equal to the spending rate set forth in HOT’s Statement of Investment Policy, Goals, Objectives and Guidelines, plus the rate of inflation over the period. To satisfy its long-term rate-of-return objectives, HOT relies on a total return strategy in which investment returns are achieved through both net appreciation and income. HOT has a spending policy allowing for the appropriation of 3% (beginning in the year ended May 31, 2020) of the rolling 12 quarters’ average balance of the endowment, or such other amount as considered necessary by the Board of Directors. Net lease rental income earned from the HOP endowment is expended currently in support of operations.

The composition of net assets with donor restrictions for endowment funds as of May 31, 2025 and 2024 and the changes in these net assets for the years then ended were as follows:

	Restricted for <u>Programs</u>	Restricted for <u>Endowments</u>
Net assets with donor restrictions, May 31, 2023	\$ 1,590,315	\$ 7,114,898
Contributions	20,000	-
Recovery of pledges written off	-	17,350
Investment income	762,726	-
Amounts appropriated for expenditure	<u>(306,806)</u>	<u>-</u>
Net assets with donor restrictions, May 31, 2024	2,066,235	7,132,248
Contributions	470,000	-
Investment income	635,180	-
Amounts appropriated for expenditure	<u>(315,838)</u>	<u>-</u>
Net assets with donor restrictions, May 31, 2025	<u>\$ 2,855,577</u>	<u>\$ 7,132,248</u>

HAWAII OPERA THEATRE AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2025
(With Prior Year Comparative Information)

NOTE L – SPECIAL EVENTS

Special events consisted of the following for the years ended May 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Income from special events		
Table and event sales	\$ 455,304	\$ 488,347
Donations	<u>234,855</u>	<u>119,352</u>
Total income from special events	690,159	607,699
Direct costs of special events	<u>(206,604)</u>	<u>(202,904)</u>
Special events – net	<u>\$ 483,555</u>	<u>\$ 404,795</u>

NOTE M – CONTINGENCIES

The Theatre may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates, on the advice of legal counsel, that the cost to resolve such matters, if any, would not be material to the consolidated financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Theatre operates in the State of Hawaii. Local, national, and international events can have severe, adverse effects on economic conditions in Hawaii. These consolidated financial statements do not include the adjustments that would result if the Theatre were to account for future losses or asset impairments, as the effects on the consolidated financial statements of the Theatre from such changes in economic conditions are not presently determinable.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 20, 2026 which is the date the consolidated financial statements were available to be issued, and determined that the Theatre did not have any subsequent events requiring adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.